



BLUE LABEL
TELECOMS

A large, glowing blue wireframe globe is the central focus. A hand from the left is pointing at the globe, and a hand from the bottom right is also pointing at it. The globe is composed of a network of lines and dots, with some points glowing. The background is a dark blue gradient.

CONNECTING OUR WORLD TO YOURS

2019 ANNUAL FINANCIAL STATEMENTS

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FINANCIAL PERFORMANCE

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Prominent notice

These annual financial statements have been audited by our 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 annual financial statements.



DA Suntup CA(SA)
Financial Director

Statement of Directors' responsibility

For the year ended 31 May 2019

The Directors are responsible for the maintenance of adequate accounting records and the preparation, integrity and fair presentation of the Group 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 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 financial statements fairly presents the results of operations for the year and the financial position of the Group at year-end. The Directors prepared the other information included in the Group financial statements and are responsible for both its accuracy and its consistency.

In addition, the Directors are responsible for the Group's system 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 financial statements have been prepared on the going concern basis, since the Directors have every reason to believe that the Group has 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 were produced and approved by the Board of Directors on 26 September 2019 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 2019

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 2019, 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

26 September 2019

Directors' report

The Directors have pleasure in presenting the Group 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 2019.

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 loss after tax attributable to equity holders for the year ended 31 May 2019 of R6 646 million (2018: profit of R1 122 million). Full details of the financial position and results of the Group and its segments are set out in the Group annual financial statements. The Group annual financial statements for the year ended 31 May 2019 were approved by the Board and signed on its behalf on 26 September 2019.

Share capital

Full details of the authorised, issued and unissued capital of the Company at 31 May 2019 are contained in note 6.1 of the Group annual financial statements. Over the period 22 August 2018 to 21 September 2018, 32 853 168 shares were repurchased at a weighted average price of R6.78 per share.

Dividends

The Board of Directors have elected not to declare a dividend.

Subsequent events and going concern

Disposals

The Blue Label Group has consistently generated positive cash flows from its trading operations since its listing. These funds have been applied to dividend distributions, share buy-backs and investing activities, at all times ensuring sufficient surplus funds to facilitate working capital requirements. Over the past two years significant investments were made, necessitating an increase in interest-bearing debt in order to ensure that working capital requirements remained intact. Accordingly, the Board of Directors have made a decision to deleverage the business in order to ensure a more robust and liquid balance sheet going forward. This deleveraging will be achieved through the disposal of certain assets, as reflected in subsequent events below, the proceeds of which will amount to approximately R1.07 billion. The disposal thereof will not have a negative impact on the extensive distribution network that Blue Label has established and will not inhibit its distribution capabilities nor on its strategic objectives going forward. These funds will be applied to reduce current interest-bearing debt.

Blue Label Mobile restructure and disposal

On 3 June 2019, BLT restructured its holdings in Cellfind Proprietary Limited (Cellfind), Viamedia Proprietary Limited (Viamedia), Airvantage Proprietary Limited (Airvantage) and AV Technology Limited (AV Technology). Prior to the restructure, BLT owned 100% of Cellfind, 60% of Airvantage SA, 60% of AV Technology and 75% of Viamedia. Malik Investments Holdings Proprietary Limited (Malik), a non-Group company, owned 25% of Viamedia. In terms of the restructure, BLT exchanged its shares in Cellfind, Viamedia, Airvantage and AV Technology for 89.51% of the shares in a new entity called Blue Label Mobile Group Proprietary Limited (BLM). Malik thereafter exchanged its 25% shareholding in Via Media for 10.49% in BLM. Following this, Malik subscribed for a further 4.51% in BLM for R34 million, increasing its shareholding in BLM to 15% with BLT owning the remaining 85%. BLT retains all of the existing rights and obligations with respect to the remaining put and/or call options on 40% of the shares in Airvantage and AV Technology (refer to note 3.7).

Directors' report continued

Subsequent to the restructure, BLT assigned its rights and obligations to acquire 50% of Hyve Mobile Proprietary Limited (Hyve) to BLM. The first tranche of payment due to the shareholders of Hyve was for R80 million, of which R47 million plus interest of R1.3 million has been paid. On payment of the balance of R33 million, BLM's 50% holding in Hyve will become effective. Thereafter, three additional tranches totalling an estimated R90.4 million will be payable over a three-year period based on performance targets. BLM has a call option to acquire a further 25% of Hyve, exercisable up until 30 September 2021, for an estimated purchase consideration of R85.2 million.

Post-year-end, BLT entered into an agreement to dispose of its 85% shareholding in BLM as well as its 51% shareholdings in Simigenix Proprietary Limited (Simigenix) and Panacea Proprietary Limited (Panacea), to DNI 4PL Contracts Proprietary Limited (DNI), for a purchase consideration of R450 million, inclusive of loan claims, plus the amounts which BLM has disbursed towards the acquisition of 50% of Hyve as at the transaction closing date. The purchase price will be as follows:

- ▶ R350 million plus the amounts BLT have disbursed for the acquisition of 50% of Hyve as at the transaction closing date; and
- ▶ R100 million, bearing interest at prime overdraft rates plus 2% per annum compounded on a monthly basis, deferred until the solvency and liquidity status of Cell C is proven.

The above proceeds received will be applied to reduce interest-bearing debt.

Post-disposal of BLM, BLT will continue to assume the obligation with respect to the put and/or call options on 40% of the shares in Airvantage and AV Technology, until such time as the liquidity and solvency status of Cell C is proven. At that stage the obligation in respect of the put and/or call options will revert back to BLM. The put and/or call options cannot be exercised prior to the finalisation of the 31 May 2020 financial results of both entities.

Should BLT be obligated to meet the commitment relating to the put option, and the liquidity and solvency is never proven thereafter, then the R100 million deferred purchase price and the interest accrued thereon will be forfeited by BLT, but in lieu thereof, BLM will transfer an additional 24% of the issued share capital of Airvantage and AV Technologies to BLT, resulting in BLT ownership of these entities amounting to 64%.

Should BLT be obligated to meet the commitment relating to the put option, and the liquidity and solvency of Cell C is proven thereafter, then the R100 million deferred purchase price and the interest accrued thereon will be payable to BLT plus the cost of the 40% put option shares that will be transferred to BLM.

Disposal of 3G Mobile

Post-year-end 3G Mobile Proprietary Limited (3G) will distribute its shares in Comm Equipment Company (CEC) and 3G's loan account claim against CEC to its shareholder, TPC. The latter will thereafter dispose of 100% of the shares in 3G to DNI for a purchase consideration of R544 million. The above proceeds received will be applied to reduce interest-bearing debt.

Cell C R1.4 billion financial guarantee

On 2 August 2018, Cell C procured R1.4 billion of funding from a consortium of financial institutions for a tenure of 12 months, secured by airtime to the value of R1.75 billion. In the event of default, TPC is required to purchase such inventory from the consortium on a piecemeal basis over a specified period that has been agreed upon. These purchases would be made in lieu of purchases that would have been made from Cell C within that period.

As at 31 May 2019, the above funding declined from R1.4 billion to R1.25 billion as a result of BLT purchasing from the security airtime. Post-year-end, the financial institutions have agreed to extend the repayment date to 30 November 2019. If Cell C is unable to meet this commitment by that date, and no further extension is granted, BLT will be required to purchase R100 million of security airtime in November 2019 and R300 million per month in December 2019, January 2020 and February 2020.

Banking facility

In August 2019, The Prepaid Company concluded an addendum to its facilities agreement with Investec Bank Limited in terms of which the facility was increased by R150 million.

Going concern

The Board of Directors have evaluated the going concern assumption as at 31 May 2019 and considered it to be appropriate in the preparation of these financial statements.

The Prepaid Company's Investec banking facilities, which would have expired on 30 September 2019, have been extended to 29 November 2019 and discussions are in progress for a further extension beyond that date.

As at the date of these financial statements, the renegotiation of these facilities had not yet been completed, and although the directors are of the opinion that the facilities would be extended beyond November 2019, material uncertainty exists should these facilities not be extended. In this event, certain liabilities within the Group would not be settled in the normal course of business.

The directors are confident that the successful completion of the transactions, as detailed in the subsequent events above, will result in a significant reduction in interest-bearing debt and in turn the strengthening of the Group's balance sheet.

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	—
			Resigned
Phuti Mahanyele	Independent Non-Executive Director	1 September 2016	23 November 2018
Joe S Mthimunya	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 2019, held directly or indirectly, were as follows:

Director/officer	Nature of interest			
	Direct beneficial		Indirect beneficial	
	2019	2018	2019	2018
BM Levy	67 174 937	63 438 386	17 772 778	21 272 778
MS Levy	59 767 529	56 030 978	17 772 777	21 272 777
KM Ellerine*	—	—	114 660 000	114 660 000
GD Harlow	—	—	4 445 569	4 414 815
JS Mthimunya	130 000	50 000	242 573	20 000
LM Nestadt	—	—	10 000 000	8 204 674
DA Suntup	3 826 078	808 612	177 778	3 877 778
JS Vilakazi	—	—	—	—

* KM Ellerine is a beneficiary of these shares together with multiple other beneficiaries.

Directors' report continued

During the period 31 May 2019 to the date of signature of this report GD Harlow sold 2 754 920 shares.

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

Director/officer	Number of shares	
	2019	2018
Beneficial	295 970 019	294 050 798

The beneficial interest held by Directors and officers of the Company constitutes 32.73% (2018: 31.25%) of the issued share capital of the Company.

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 5.1.

Resolutions

On 29 November 2018, 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; and
- ▶ approval to grant financial assistance in terms of sections 44 and 45 of the Act.

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 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.

Auditors

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

A handwritten signature in black ink, appearing to read 'Larry Nestadt', written in a cursive style.

Larry Nestadt
Chairman

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

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our opinion

In our opinion, except for the possible effects of the matter described in the *basis for qualified opinion* section of our report, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Blue Label Telecoms Limited (the Company) and its subsidiaries (together the Group) as at 31 May 2019, and its consolidated financial performance and its consolidated 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 financial statements set out on pages 24 to 129 comprise:

- ▶ the Group statement of financial position as at 31 May 2019;
- ▶ the Group income statement for the year then ended;
- ▶ the Group statement of comprehensive income for the year then ended;
- ▶ the Group statement of changes in equity for the year then ended;
- ▶ the Group statement 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 QUALIFIED OPINION

The Group holds a 45% interest in Cell C Limited (Cell C) and accounts for this investment as an equity-accounted associate. The Group's interest in Cell C is included in the following financial statement line items within the Group's financial statements:

- ▶ share of (losses)/gains from associates and joint ventures (in the Group income statement); and
- ▶ investments in and loans to associates and joint ventures (in the Group statement of financial position).

Cell C has a December year-end and management requested them to prepare financial information as at 31 May 2019 for the purposes of preparing the consolidated financial statements of the Group. This financial information was prepared and audited in accordance with the accounting policies of Blue Label Telecoms Limited, and was presented on the going concern basis. The Group's investment in Cell C was included in the consolidated financial statements accordingly.

However, continuation of the adverse trading conditions experienced by Cell C during the year, which included a significant decrease in forecast revenue and lower than anticipated growth in their subscriber base could result in insufficient available cash resources to settle their debts as they come due. For these reasons, the Group's investment in Cell C was impaired to nil (as explained in the *key audit matters* section below).

In light of the trading circumstances, it is possible that the use of the going concern basis of preparation may not be appropriate for the financial information of Cell C. However, we were not able to obtain sufficient appropriate audit evidence regarding that determination. If the going concern basis of preparation were considered inappropriate, this would result in the remeasurement of assets and liabilities within the financial information of Cell C, with a corresponding net impact on its profit or loss. Such remeasurement would be dependent on which alternate basis of preparation was adopted. Under an alternate basis of preparation, assets and liabilities of Cell C could be impaired, measured at fair value rather than cost, or written off entirely, depending how Cell C planned to recover or settle these assets and liabilities. The possible effect of this matter on the consolidated financial statements would be as follows:

- ▶ there could be a material classification misstatement in the Group income statement. The share of losses from associates and joint ventures as disclosed in note 2.1 may be materially understated in the current year. However, there would be an equal and opposite overstatement of the impairments on associates and joint ventures financial statement line item. Therefore, this potential classification misstatement would have no effect on the Group's loss before taxation;
- ▶ the headline earnings per share (HEPS) earnings measure and core HEPS earnings measure would also be impacted, should the equity-accounted losses and impairment of investment in Cell C materially differ as explained above; and

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

continued

- ▶ the disclosure of summary financial information of Cell C Limited, presented in note 2.1 to the consolidated financial statements may be materially misstated.

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the *auditor's responsibilities for the audit of the consolidated 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 qualified opinion.

Independence

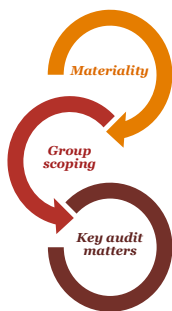
We are independent of the Group in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised January 2018)*, parts 1 and 3 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised November 2018)* (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* respectively.

MATERIAL UNCERTAINTY RELATING TO GOING CONCERN

We draw attention to note 9.2 to the financial statements, which indicates that the Group has evaluated the going concern assumption as at 31 May 2019. One of the Group's significant facilities has been extended to 29 November 2019. A renegotiation for a further extension beyond that date is currently in process. These events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

OUR AUDIT APPROACH

Overview



Overall Group materiality

- ▶ Overall Group materiality: R77 600 000, which represents 0.3% of consolidated revenue.

Group audit scope

- ▶ We have identified 17 components which, in our view, require an audit of their financial information due to their financial significance to the Blue Label Telecoms Group and due to their risk characteristics.

Key audit matters

- ▶ Assessment of impairment of investment in Cell C.
- ▶ Impairment assessment of goodwill arising from business combinations and impairment assessment of associate investments in Blue Label Mexico S.A. de C.V. (Blue Label Mexico) and Oxygen Services India Private Limited (OSI).

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated 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.

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 on the following page. 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.

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

continued

Overall group materiality	R77 600 000.
How we determined it	0.3% of consolidated revenue.
Rationale for the materiality benchmark applied	Consolidated revenue was selected as the benchmark because, in our view it is the benchmark against which the performance of the Group can be consistently measured, as it is an indicator of market share which is considered to be the key objective and focus of the Group's business model and users. We chose 0.3% based on our professional judgement and after consideration of the range of quantitative materiality thresholds that we would typically apply when using revenue to compute materiality. The considerations included taking cognisance of the intended users and distribution of the financial statements, the financial covenants held over the Group's debt as well as the inherent risk of the entity.

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 is made up of five segments, African distribution, International distribution, Mobile, Solutions and Corporate which operate across eight countries and four continents. The Group's main operating subsidiaries and associates are located in South Africa. In establishing the overall audit approach to the Group audit, we determined the type of work that needed to be performed at the local operations by ourselves, as the Group's engagement team, or component auditors from other PwC network firms and firms external to PwC operating under our instructions. The Group's operations vary in size. In total, 17 components were identified to be in full scope for Group reporting purposes due to their financial significance and risk characteristics.

Detailed Group audit instructions were communicated to all components in scope, including Cell C Limited's and Oxigen Services India's component auditors, and comprehensive audit approach and strategy planning meetings were held with all reporting component teams before commencing their respective audits. Throughout the audit, various calls and discussions were held with the teams of the significant components. We also visited the component audit teams responsible for the audit of Cell C Limited as well as Blue Label Mexico.

We assessed the competence, knowledge and experience of the component auditors, including the component auditors of Cell C Limited and Oxigen Services India and evaluated the procedures performed on the significant audit areas to assess the adequacy thereof in pursuit of our audit opinion on the consolidated financial statements.

Where the work was performed by the component auditors, we determined the level of involvement we needed to have in the audit work at these operations to be able to conclude whether sufficient, appropriate audit evidence has been obtained as a basis for our opinion on the consolidated financial statements as a whole.

Analytical procedures were performed over all components not in scope to assess whether any risks exist that would require additional audit procedures.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matters described in the *basis for qualified opinion* and *material uncertainty relating to going concern* sections, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
Assessment of impairment of investment in Cell C Limited	
The Group holds a 45% interest in Cell C and accounts for this investment as an associate in terms of IAS 28 – <i>Investments in Associates and Joint Ventures</i>. During the current year management identified impairment indicators in relation to the investment in Cell C as at 31 May 2019. These impairment indicators prompted management to perform an impairment assessment. Management appointed an independent third-party valuation specialist to assess the value of the investment in Cell C. Based on management's assessment, the investment in Cell C was impaired to a nil value. The impairment assessment was considered a matter of most significance to our current year audit because of the following: ▶ the financial significance of impairment to the consolidated financial statements; and ▶ the impairment assessment required management to apply judgement in determining the key assumptions, which include the cash flow forecasts, discount rate and terminal growth rate. Refer to note 2.1 for the related disclosures.	We obtained management's calculations of the recoverable amount based on fair value less cost of disposal. Using this information, and the assistance of our internal valuations experts, we performed the following procedures: ▶ cash flow forecasts were agreed to the approved budgets and current trading performance of Cell C; ▶ we tested the reasonability of management's calculations in determining the discount rate and corroborated the assumptions applied by management with third-party sources. We found the calculations to be within a reasonable range; ▶ we assessed the reasonability of the terminal growth rate against long-term GDP growth rate forecasts for South Africa; ▶ with the assistance of our internal valuations experts, we assessed the reasonability of management's recoverable amount calculation by flexing certain inputs and assumptions to reflect independently determined values. We concurred with management's decision to impair the investment in Cell C to nil, as this fell within the reasonable range we had determined; and ▶ we reviewed the disclosures regarding the impairment losses in the consolidated financial statements and noted no material differences.

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

continued

Key audit matter

Impairment assessment of goodwill arising from business combinations and impairment assessment of associate investments in Blue Label Mexico and OSI

The Group has entered into various business combinations over the last couple of years which resulted in significant goodwill being recognised. The goodwill recognised in these business combinations relates mainly to expected synergies and the ability to introduce new service offerings.

Goodwill is tested annually for impairment or whenever there is an impairment indicator identified by management.

Management's annual goodwill impairment assessments were identified as a matter of most significance to our audit because of the quantum of goodwill as at 31 May 2019, the significant judgement and estimates involved in determining the terminal growth rate, discount rate and forecast cash flows as well as the future market or economic conditions faced by the various businesses within the Group.

Management performed an impairment assessment of the goodwill balance as at 31 May 2019 by performing the following:

- ▶ assessing the recoverable amount through determination of a value-in-use amount and comparing this to the carrying amount, and if an impairment was identified, performing a fair value less costs to sell calculation to determine the highest recoverable amount;
- ▶ the value-in-use for each cash-generating unit (CGU) was calculated 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 the weighted average cost of capital i.e. discount rate) to assess the impact on the value-in-use.

Refer to note 4.1 for details of management's impairment tests and assumptions.

Under IFRS, the Group is required to test the recoverable amount of investments for impairment if there is an indicator of impairment. Management identified an impairment indicator regarding the material investments in OSI and Blue Label Mexico and performed impairment tests as a result.

How our audit addressed the key audit matter

For material goodwill balances and investment balances, for which the recoverable amounts were determined through value-in-use estimation, our audit procedures included the following:

- ▶ we evaluated management's assessment of the identification of the Group's CGUs and obtained the relevant impairment assessments performed by management for these CGUs (including the CGUs within Blue Label Mexico);
- ▶ we assessed the reasonability of management's cash flow forecasts through discussions with management regarding the process followed to develop the budgets, forecasts and the assumptions utilised. We also compared the prior year budgets to the current year actual results to understand the efficacy of management's budgeting process and found that the budgeting inputs were reasonable;
- ▶ we evaluated whether the assumptions used, such as working capital and capital expenditure, had been determined and applied consistently across the CGUs;
- ▶ we agreed the budgets to the latest Board-approved budgets. The Board-approved budgets cover a period of five years and the forecasts for the purpose of the value-in-use calculations also covered a period of five years;
- ▶ we assessed the mathematical accuracy of the valuations performed by management as well as the appropriateness of the methods used for the valuations and found no exceptions;
- ▶ we made use of our internal valuations experts to independently calculate discount rates 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 rates used by management. Where differences were noted, we discussed these with management and evaluated whether in those instances the different rates would have resulted in an impairment. We found the discount rates used by management to be within acceptable ranges of our independent calculations;
- ▶ the terminal growth rates were compared to forecast industry trends and to independent sources for similar operations;
- ▶ we further made use of our internal valuations experts to assess the approaches adopted by management in the valuation models for both goodwill and the investments in Blue Label Mexico and found that the approaches were in line with market practice and the applicable requirements of IAS 36 – *Impairment of Assets*; and

Key audit matter

Management's impairment assessment process relating to the investment in Blue Label Mexico is consistent with the process followed for goodwill as described previously.

For the investment in OSI, management determined that the fair value less cost of disposal is higher than the value-in-use given the uncertainties regarding the future cash flow projections of the Company due to a lack of funding. Management outsourced the valuation of the investment in OSI to qualified independent third-party valuation specialists. Management determined the fair value less cost of disposal by applying a gross revenue multiple, using relevant information generated by similar market transactions that have been concluded by comparable businesses. Key inputs in determining the fair value less cost of disposal are the gross revenue and the revenue multiple applied. Other assumptions are also disclosed in the financial statements.

Refer to note 2.1 for details of management's impairment test and assumptions.

The process of assessing impairment is complex and highly judgemental, and is based on a number of critical assumptions, estimates and judgement including the terminal growth rate, discount rate and forecast cash flows, which are affected by expected future market or economic conditions. Changes in these assumptions may lead to an impairment charge being recognised for the investment in Blue Label Mexico.

The impairment tests were considered a matter of most significance to our audit because of the quantum of the goodwill and the investments in Blue Label Mexico and OSI and the complexity involved in the impairment assessments.

How our audit addressed the key audit matter

► 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, estimates and judgements applied in the models were reasonable.

For the investment in OSI, for which the recoverable amount was determined through fair value less costs of disposal estimation, our audit procedures included the following:

- we evaluated the reasonableness of management's use of the fair value less cost of disposal as the appropriate recoverable amount in terms of IAS 36 – *Impairment of Assets*, and found this to be appropriate; and
- we made use of our internal valuations experts to identify and assess the reasonableness of the revenue multiple applied with reference to similar transactions, and evaluated key assumptions utilised by management in their valuation. We found the multiple to be reasonable and key assumptions to be appropriately applied.

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 information included in the documents titled "Blue Label Telecoms 2019 annual financial statements" and "Blue Label Telecoms Limited annual financial statements for the year ended 31 May 2019", which include 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, which we obtained prior to the date of this auditor's report, and the other sections of the document titled "Blue Label Telecoms integrated annual report 2019", which is expected to be made available to us after that date. The other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated 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 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 financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described in the *basis for qualified opinion* section above, we were unable to obtain sufficient appropriate evidence on the accuracy of the financial information for Cell C. Accordingly, we are unable to conclude whether or not the other information is materially misstated with respect to this matter.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group'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 or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated 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 ISA 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 financial statements.

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

- ▶ Identify and assess the risks of material misstatement of the consolidated 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 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 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 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 to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated 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 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 15 years.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.

Director: Deon Storm

Registered Auditor

Waterfall

26 September 2019

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 2019.

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;
- ▶ review and consider, for recommendation to the Board, the consolidated budget for the ensuing financial year;
- ▶ overseeing integrated reporting;
- ▶ overseeing the Internal Risk and Compliance Committee function;
- ▶ overseeing the function of the Compliance Officer;
- ▶ ensure that Blue Label implements an effective policy and plan for risk management that has been disseminated throughout the organisation and integrated within day-to-day activities in order to enhance the Company's ability to achieve its strategic objectives;
- ▶ ensure that the disclosure regarding risk is comprehensive, timely and relevant;
- ▶ ensure that a combined/integrated assurance model is applied to provide a coordinated approach to all assurance activities and appropriately addresses all the significant risks facing Blue Label;
- ▶ reviewing and satisfying itself of the expertise, resources and experience of the Blue Label finance function;
- ▶ overseeing the Group internal audit function;
- ▶ establish, implement and maintain a compliance function with adequate policies and procedures to ensure compliance with rules, regulations, statutes and procedures applicable to Blue Label;
- ▶ report annually to the Board and shareholders describing the Committee's composition, responsibilities and how they were discharged, and any other information required by rule, including the approval of non-audit services;
- ▶ resolve any disagreements between management and the auditor regarding financial reporting;
- ▶ retain independent counsel, accountants, or others to advise the Committee or assist in the conduct of an investigation;
- ▶ seek any information it requires from employees – all of whom are directed to cooperate with the Committee's requests – or external parties; and
- ▶ meet with the organisation's officers, external auditors, or outside counsel as necessary.

Membership and meetings held

In accordance with the requirements of the Companies Act, No 71 of 2008 (the Act), Messrs JS Mthimunye, GD Harlow and SJ Vilakazi were appointed to the Committee by shareholders at the Annual General Meeting held on 29 November 2018.

- ▶ JS Mthimunye (Independent Non-Executive Chairman)
- ▶ GD Harlow (Independent Non-Executive Director)
- ▶ J Vilakazi (Independent Non-Executive Director)

P Mahanyele who was a member of the ARCC previously resigned on 23 November 2018.

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;
- ▶ 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:

- ▶ 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 in the Directors' report.

External audit 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.

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 2019 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 2019 comprised tax advisory services, tax compliance services and general advisory services. The fees applicable to the aforementioned services totalled R1.56 million (2018: R4.1 million), of which Rnil (2018: R2.8 million) relate to non-audit services and the remainder to acquisition-related costs.

The ARCC has nominated, for approval at the Annual General Meeting, the reappointment of PwC as registered auditors for the 2019 financial year. The Committee also satisfied itself in terms of paragraph 3.84(g)(iii) of the JSE Listings Requirements that PwC is accredited. In addition, the Committee has also satisfied itself that Deon Storm, the PwC audit partner, is accredited and appears on the JSE List of Accredited Auditors.

Audit, Risk and Compliance Committee's report continued

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 and independent.

The Committee:

- ▶ reviewed the cooperation and coordination between the internal and external audit functions in order to avoid duplication of work and to work towards an effective and efficient combined/integrated assurance approach;
- ▶ examined and reviewed the progress made by internal audit against the approved 2018/19 audit plan;
- ▶ considered the combined/integrated assurance plan for the 2018/19 financial year;
- ▶ approved the revised Group Internal Audit terms of reference;
- ▶ approved the risk-based internal audit plan for the 2019/20 financial year;
- ▶ considered the effectiveness of internal audit;
- ▶ considered internal audit findings and corrective actions taken in response to such findings; and
- ▶ reviewed the annual statement from internal audit on the effectiveness of the organisation's governance, risk management and internal control processes.

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

The ARCC concludes that the combined assurance arrangement is effective and will continue to evolve as the Group grows.

Risk management and compliance

In relation to the governance of risk, 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, and monitored the management of risk exposures against these levels;
- ▶ reviewed and recommended to the Board approval of the Integrated Risk Assurance Policy and Framework;
- ▶ monitored bi-annual risk assessments and reviewed the consolidated strategic risk profile to evaluate and ensure all material risks have been identified as they pertain to the triple context of Blue Label, and are being managed appropriately;
- ▶ provided feedback to the Board on significant risks, including emerging risks, and significant changes to the risk profile;
- ▶ ensured that management considered and implemented appropriate risk responses to significant risks;
- ▶ considered the relevance and effectiveness of Information and Technology Governance systems, processes and mechanisms to manage technology-related risks;
- ▶ reviewed and recommended to the Board risk information for disclosure, in accordance with King IV principles;
- ▶ reviewed legal matters that could have a material impact on the Group in conjunction with Blue Label's legal adviser; 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 IVTM.*

The ARCC is satisfied that it has dedicated sufficient time to its responsibility towards the governance of risk.

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The Committee is satisfied that it has exercised sufficient, ongoing oversight of compliance through:

- ▶ the appointment of a dedicated Compliance Officer for the Group;
- ▶ the approval of the compliance strategy;
- ▶ the approval of the regulatory compliance policy and the compliance process;
- ▶ annual review of the Company's regulatory universe in order to prioritise regulatory compliance efforts;
- ▶ ongoing development and review of compliance risk management plans;
- ▶ continuous monitoring of the regulatory environment to ensure that the Group keeps abreast of matters affecting its regulatory environment;
- ▶ identification and monitoring of key compliance risks across the Group; and
- ▶ making use of a compliance maturity model to assess progress in the management of compliance.

Expertise and experience of the Financial Director and finance function

The Committee considered the appropriateness of the expertise and experience of the Financial Director and finance function in accordance with the JSE Listings Requirements and governance best practice. The ARCC concluded that the finance function is adequately resourced with technically competent individuals and is effective. The Committee confirms that it is satisfied that Dean Suntup possesses the appropriate expertise and experience to discharge his responsibilities as Financial Director.

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 annual financial statements of Blue Label Telecoms Limited for the year ended 31 May 2019 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;
3. the impairment assessment of the investment in Oxigen, Oxigen Online and 2DFine;
4. the impairment assessment of the investment in Cell C Limited;
5. accounting for the bond notes and liquidity support; and
6. the fair value estimate of the GloCell loan.

These matters were addressed as follows:

The impairment assessment of goodwill arising from business combinations

For the year ended 31 May 2019, 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.

Audit, Risk and Compliance Committee's report continued

Based on the above impairment assessments, as well as management judgement, the following impairments were applied:

Viamedia goodwill impairment of R74 million

Viamedia's performance has been negatively impacted as a result of a sector-wide decline in the B2C (direct to consumer) WASP industry. Previously this was significantly offset by growth in its Enterprise division. However, over the past six months, the latter division has flat-lined which, together with the continued decline in the B2C channel, has caused a negative impact on operating profits with marginal growth expectations going forward.

SupaPesa investment impairment of R30 million

A decline in revenue, primarily attributable to legislative changes and loss in clientele, has resulted in the impairment.

Blue Label Connect goodwill impairment of R49 million

Blue Label Connect's performance has been negatively impacted as a result of challenging economic conditions that have affected one of its major clients. Furthermore, margin compression resulting from reduced incentives from the networks, as well as an increase in product costs, has resulted in an impairment to goodwill.

Management concluded there was no need for any further impairment.

The impairment assessment of the investment in BLM

For the year ended 31 May 2019, 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.

The impairment 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 ventures, 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. In the current year a fair value loss was recognised in the income statement.

This accounting treatment was accepted by the Group's auditing firm following rigorous debates and internal consultations. This accounting treatment was highly judgemental, therefore the Group included detailed disclosure on the critical judgement it had applied. This judgement was also listed as a key audit matter in the audit report.

In June 2018, the Group received notification from the JSE proactive monitoring panel stating that they did not agree with the exemption we had applied in IAS 28. This resulted in various letters and face to face meetings to ultimately get to the correct accounting treatment. After months of debates the JSE asked the Financial Reporting Investigation Panel to review and they found in favour of the JSE.

The Group has therefore agreed to not apply the exemption available under IAS 28 – *Investments in Associates and Joint Ventures* to the investment in Oxygen India and 2DFine and now account for these associates and joint venture using equity accounting principles.

For the year ended 31 May 2019, management utilised an independent third-party valuation specialist to calculate the fair value less cost of disposal. The fair value less cost of disposal is calculated by utilising relevant information generated by similar market transactions that have been concluded by comparable businesses. The assumptions and inputs used in calculating the fair value less cost to sell are regarded as level 3 fair value estimates.

The fair value of the 2DFine Group is based on its share of the fair value of Oxygen Services India and Oxygen Online, less the liabilities of the 2DFine Group.

Based on the fair value less cost of disposal, combined with the corporate transaction, referred to in the 30 November 2018 interim results, that did not materialise, and the resultant lack of funding, management concluded that an impairment of its full investment of R118 million in the Oxygen Group was required. The full value of loans to Oxygen Services India of R31 million and 2DFine Holdings Mauritius of R101 million, net of a surety asset raised, were also impaired. In addition, the Group has accounted for a R103 million liability relating to financial guarantee contracts.

The impairment assessment of the investment in Cell C Limited

On 2 August 2017, Blue Label, through its wholly owned subsidiary, The Prepaid Company, acquired 45% of the issued share capital of Cell C for a purchase consideration of R5.5 billion.

For the year ended 31 May 2019, management appointed an independent third-party valuation specialist to determine the value-in-use based on cash flow projections incorporated in the five-year Cell C business plan. They applied assumptions relating to the business, the industry and economic growth. Cash flows beyond this point were then extrapolated, applying terminal growth rates that did not exceed the expected long-term economic growth rate.

TPC's share of the value-in-use as at 30 November 2018 amounted to R6.04 billion. The valuation declined to a nil value at 31 May 2019. This was primarily attributable to:

- (a) A significant downward revision of the mobile subscriber base. The valuation at November 2018 was based on the assumption the CAGR forecast would average 9.3% per annum over a five-year period. In May 2019 the CAGR forecast was revised to an average of 4.6% per annum. This resulted in an originally expected 23.4 million subscribers after five years declining to a revised expectation of 17.9 million.
 - ▶ Cell C previously anticipating gaining approximately 6% additional market share by accessing new territories. Instead, Cell C's market share declined by approximately 2% from 16% at November 2018 to 14% at May 2019. This was in line with re-evaluating the inactive subscriber base and a loss of customers to competitors.
 - ▶ A deteriorating South African economy since November 2018, with an initial GDP forecast of 1.9% for the calendar year ended 2019 to a revised forecast contraction of 0.2%. Accordingly, the forecast GDP was adjusted downwards each year for the following four years. In addition, Business Monitor Intelligence revised their mobile subscriber growth in April 2019 from a CAGR of 2.2% for the period FY18 to FY23 to 1.8%.
 - ▶ Year to date trading being below budget.
- (b) A substantial decline in forecast other revenue. This is largely due to a significant decline in equipment, Mobile Virtual Network Operator and Business Service Provider revenues over the five-year period in comparison to the initial forecast. Cell C had previously forecast gaining market share from its competitors. This did not materialise.
- (c) Lower taxation benefit relating to depreciation as a result of a revised forecasted reduction in capital expenditure.

Audit, Risk and Compliance Committee's report continued

In determining the revised valuation, cognisance was taken into account of positive cash flow generation from:

- (a) A decline in forecast direct expenditure on handset, SIM costs, ongoing commissions and discounts due to lower subscriber growth.
- (b) A reduction in forecast payroll costs.
- (c) A decline in capital expenditure due to cash flow constraints and lower subscriber base forecast.
- (d) A decrease in cash lease payments as a result of less network towers required due to the lower forecast of the subscriber base.

The impact of the transactions in progress relating to a national roaming agreement and the recapitalisation of Cell C were not in effect as at 31 May 2019 and as such have not been accounted for in the valuation at that date.

Accounting for the bond notes and liquidity support

On 2 August 2017, TPC purchased bond notes, issued by Cedar Cellular Investments 1 Proprietary Limited (SPV1), from Saudi Oger Limited with a capital redemption value of USD42 million and with a coupon rate of 8.625% per annum for a purchase consideration of USD18 million. TPC 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, resulting in an effective purchase consideration of USD9 million with a capital redemption value of USD21 million.

As part of the restructure of the debt into Cell C by third-party lenders, TPC 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 USD36 million of the aforesaid USD80 million thus reducing TPC's obligation in this regard to a maximum of USD44 million. As at 31 May 2019, the Group has contributed USD24 million to SPV2, toward the latter amount.

SPV1 and SPV2 own 11.8% and 16% of the shares issued by Cell C respectively. No other assets are held by these entities, and as such the Group's bond note and liquidity support arrangements will be settled only when the value of the Cell C shares are realised by SPV1 and SPV2. The substance of these arrangements are therefore derivatives exposing the Group to the share price of Cell C.

The derivatives are initially recognised by the Group at fair value and subsequently measured at fair value through profit or loss.

The fair value of the derivatives are not traded in an active market and are therefore determined by the use of a valuation technique. Management performed the valuations using a Monte Carlo simulation taking into account the expected exit event date of Cell C in the next 11 to 24 months. These calculations use a valuation of Cell C provided by a qualified independent third-party valuation specialist. By way of simulation, the model generates a large number of random paths for the value of the Cell C share price from 31 May 2018 to the expected listing date. The average payoffs across the simulated paths are then discounted at the risk-free rate to obtain the present value of the shares owned by SPV1 and SPV2. As both arrangements are USD denominated, the model accounts for the forward rate of the US dollar at the expected listing date.

As at 31 May 2019, an independent third-party valuation specialist attributed a nil value to Cell C Limited. As a result, an unrealised fair value loss totalling R750 million was recognised in the current year, of which R167 million related to SPV1 and R583 million to SPV2.

The derivatives are level 3 instruments in the fair value hierarchy.

The fair value estimate of the Glocell loan

TPC acquired a 48% share in Glocell Distribution Proprietary Limited (Glocell Distribution) on 30 June 2018 (refer to note 2.4).

In terms of an agreement entered into between TPC and Glocell Proprietary Limited (Glocell), Glocell has pledged its 40% shareholding in Glocell Distribution to TPC in the event of Glocell defaulting on amounts owing of R343 million to TPC as at 31 May 2019. The right to enforce this pledge is currently not exercisable.

This right only becomes exercisable once Glocell has settled its outstanding debt of R121 million to Investec Bank Limited.

Glocell's ability to repay TPC the amounts owing to it is dependent on the extent of dividends receivable from Glocell Distribution on a piecemeal basis. TPC is therefore exposed to the value of Glocell Distribution and accordingly has reclassified the amount due by Glocell to it from trade receivables to financial assets at fair value through profit or loss.

A discounted cash flow valuation of Glocell Distribution has been used to determine the value of Glocell's 40% shareholding in Glocell Distribution. This is used to determine the fair value of the loan. This valuation has been performed by the finance department of the Group using cash flow projections based on forecasts for up to five years which are based on assumptions of the business, industry and economic growth.

A fair value downward adjustment of R141 million of the R343 million owing to TPC was required due to unfavourable wholesale trading conditions impacting on Glocell Distribution's financial performance. The derivatives are level 3 instruments in the fair value hierarchy.

The ARCC is satisfied that it has complied with its legal, regulatory and other responsibilities as per its terms of reference.

On behalf of the Audit, Risk and Compliance Committee



JS Mthimunye

Chairman

26 September 2019

Group income statement

For the year ended 31 May 2019

	Notes	2019 R'000	Restated* 2018 R'000
Revenue	1.2	25 869 433	26 734 249
Other income		120 914	81 704
Changes in inventories of finished goods		(23 037 901)	(24 375 756)
Finance costs incurred in the generation of revenue		(185 411)	(76 401)
Employee compensation and benefit expense	5.2	(594 183)	(524 187)
Depreciation and amortisation		(253 016)	(155 540)
Impairments and fair value losses	1.3	(1 212 089)	(158 657)
Other expenses		(498 083)	(427 863)
Operating profit	1.3	209 664	1 097 549
Finance costs	1.4	(245 957)	(306 636)
Finance income	1.4	99 705	195 298
Impairments on associates and joint venture	1.3	(2 669 076)	—
Share of (losses)/gains from associates and joint ventures	2.1	(3 701 410)	520 628
(Loss)/profit before taxation		(6 307 074)	1 506 839
Taxation	7.1	(315 122)	(331 069)
(Loss)/profit for the year		(6 622 196)	1 175 770
(Loss)/profit for the year attributable to:			
Equity holders of the parent		(6 646 383)	1 122 085
Non-controlling interest		24 187	53 685
Earnings per share for (loss)/profit attributable to:			
Equity holders (cents)			
— Basic	1.5	(727.81)	131.13
— Diluted ¹	1.5		123.03

* As a result of the prior year errors the Group has restated their comparative financial information. Refer to note 11 for details.

¹ There are no dilutive instruments in the current year.

Included on the face of the Group income statement is a line item called "Finance costs incurred in the generation of revenue". In the prior year these finance costs were included in "Changes in inventories of finished goods".

Included on the face of the Group income statement is a line item called "Impairments and fair value losses". In the prior year impairments or fair value losses were included in either "Other expenses" or "Depreciation, amortisation and impairment".

In order to enhance the disclosure of these costs the Group now discloses them on separate line items.

Group statement of comprehensive income

For the year ended 31 May 2019

	2019 R'000	Restated* 2018 R'000
Net (loss)/profit for the year	(6 622 196)	1 175 770
Other comprehensive income:		
Items reclassified to profit or loss		
Foreign currency translation reserve reclassified to profit or loss*	(144)	(3 097)
Items that may be subsequently reclassified to profit or loss		
Foreign exchange profit/(loss) on translation of associates and joint ventures*	45 868	(7 681)
Foreign exchange profit/(loss) on translation of foreign operations*	21 247	(3 869)
Other comprehensive income/(loss) for the year, net of tax	66 971	(14 647)
Total comprehensive (loss)/income for the year	(6 555 225)	1 161 123
Total comprehensive (loss)/income for the year attributable to:		
Equity holders of the parent	(6 582 478)	1 107 903
Non-controlling interest	27 253	53 220

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

Group statement of financial position

As at 31 May 2019

	Notes	31 May 2019 R'000	Restated* 31 May 2018 R'000	Restated* 1 June 2017 R'000
ASSETS				
Non-current assets		3 477 070	9 412 758	2 070 547
Property, plant and equipment	4.3	237 657	137 120	111 599
Intangible assets	4.2	1 083 328	1 076 871	511 164
Goodwill	4.1	1 234 995	1 036 243	604 590
Investments in and loans to associates and joint ventures	2.1	218 842	6 684 585	731 788
Loans receivable	3.5.1	41 760	53 270	36 851
Trade and other receivables	3.5.2	—	22 757	47 858
Advances to customers	3.5.3	584 440	356 689	—
Deferred taxation assets	7.2	76 048	45 223	26 697
Current assets		8 604 302	8 526 636	6 498 626
Loans to associate	2.1	—	1 029 626	—
Inventories	4.4	1 514 649	597 946	2 180 121
Loans receivable	3.5.1	190 769	207 799	188 229
Trade and other receivables	3.5.2	4 257 266	4 292 970	2 767 475
Advances to customers	3.5.3	1 032 657	1 238 321	—
Financial asset at fair value through profit and loss	3.7	204 739	168 144	—
Current tax assets		18 626	43 942	12 135
Cash and cash equivalents	3.5.4	1 385 596	947 888	1 350 666
Total assets		12 081 372	17 939 394	8 569 173
EQUITY AND LIABILITIES				
Capital and reserves		2 491 562	9 515 085	4 867 074
Issued share capital and premium		7 599 016	7 844 847	3 953 871
Other reserves	6.2	(2 824 740)	(2 814 202)	(2 709 176)
Retained earnings		(2 405 031)	4 327 523	3 555 242
Total ordinary shareholders' equity		2 369 245	9 358 168	4 799 937
Non-controlling interest		122 317	156 917	67 137
Non-current liabilities		1 951 920	1 743 240	49 391
Deferred taxation liabilities	7.2	236 400	229 100	49 391
Borrowings	3.6.2	1 715 520	1 514 140	—
Current liabilities		7 637 890	6 681 069	3 652 708
Trade and other payables	3.6.1	5 371 386	4 990 798	3 543 779
Financial guarantee contracts	3.6.3	243 492	—	—
Provisions	4.5	24 947	39 628	35 071
Financial liabilities at fair value through profit and loss	3.7	460 354	143 307	—
Current tax liabilities		9 104	50 368	55 832
Borrowings	3.6.2	1 520 764	1 456 968	18 026
Bank overdraft	3.5.4	7 843	—	—
Total equity and liabilities		12 081 372	17 939 394	8 569 173

* As a result of the prior year errors the Group has restated their comparative financial information. Refer to note 11 for details.

The Group has reclassified advances to customers to a separate line item. In the prior year financial statements this balance was included in trade and other receivables. There were no advances to customers at 31 May 2017.

Group statement of changes in equity

For the year ended 31 May 2019

	Notes	Issued share capital and premium R'000	Retained earnings R'000
Balance as at 1 June 2017 – as previously reported		3 953 871	3 640 034
Prior year error*	11	—	(84 792)
Balance as at 1 June 2017 – restated*		3 953 871	3 555 242
Net profit for the year – restated*		—	1 122 085
Other comprehensive (loss)/income – restated*		—	—
Total comprehensive income/(loss) – restated*		—	1 122 085
Treasury shares purchased	6.1	(28 846)	—
Shares issued		3 932 834	—
Transaction costs on shares issued		(34 663)	—
Equity compensation benefit scheme shares vested		21 651	—
Equity compensation benefit movement		—	—
Transaction with non-controlling interest reserve movement		—	—
B-BBEE transaction		—	—
Non-controlling interest acquired		—	—
Non-controlling interest disposed of		—	—
Dividends paid		—	(349 804)
Balance as at 31 May 2018 – restated*		7 844 847	4 327 523
Adjustment on the initial application of IFRS 9	10.5	—	(95 888)
Adjustment on the initial application of IFRS 15	10.5	—	9 717
Adjusted opening balance as at 1 June 2018		7 844 847	4 241 352
Net loss for the year		—	(6 646 383)
Other comprehensive income/(loss)		—	—
Total comprehensive (loss)/income		—	(6 646 383)
Treasury shares purchased	6.1	(42 378)	—
Shares repurchased	6.1	(224 006)	—
Equity compensation benefit scheme shares vested		20 553	—
Equity compensation benefit movement		—	—
Transaction with non-controlling interest reserve movement**		—	—
Non-controlling interest acquired		—	—
Non-controlling interest disposed of		—	—
Dividends paid		—	—
Balance as at 31 May 2019		7 599 016	(2 405 031)

* As a result of the prior year errors the Group has restated their comparative financial information. Refer to note 11 for details.

** The majority of this amount relates to the put option on the acquisition of Airvantage Technology Limited – see note 3.7.

Other reserves R'000	Total ordinary share- holders' equity R'000	Non- controlling interest R'000	Total equity R'000
(2 665 758)	4 928 147	67 137	4 995 284
(43 418)	(128 210)	—	(128 210)
(2 709 176)	4 799 937	67 137	4 867 074
—	1 122 085	53 685	1 175 770
(14 182)	(14 182)	(465)	(14 647)
(14 182)	1 107 903	53 220	1 161 123
—	(28 846)	—	(28 846)
—	3 932 834	—	3 932 834
—	(34 663)	—	(34 663)
(21 362)	289	(289)	—
23 084	23 084	778	23 862
(93 966)	(93 966)	—	(93 966)
1 400	1 400	—	1 400
—	—	66 645	66 645
—	—	(2 824)	(2 824)
—	(349 804)	(27 750)	(377 554)
(2 814 202)	9 358 168	156 917	9 515 085
—	(95 888)	(1 437)	(97 325)
—	9 717	—	9 717
(2 814 202)	9 271 997	155 480	9 427 477
—	(6 646 383)	24 187	(6 622 196)
63 905	63 905	3 066	66 971
63 905	(6 582 478)	27 253	(6 555 225)
—	(42 378)	—	(42 378)
—	(224 006)	—	(224 006)
(19 915)	638	(638)	—
7 149	7 149	577	7 726
(61 677)	(61 677)	—	(61 677)
—	—	(25 904)	(25 904)
—	—	1 099	1 099
—	—	(35 550)	(35 550)
(2 824 740)	2 369 245	122 317	2 491 562

Group statement of cash flows

For the year ended 31 May 2019

	Notes	2019 R'000	2018 R'000
Cash flows from operating activities			
Cash received from customers		25 995 287	23 588 810
Cash paid to suppliers, financiers and employees		(25 564 000)	(20 000 031)
Cash generated by operations	1.6	431 287	3 588 779
Interest received		88 416	154 952
Interest paid		(231 131)	(187 489)
Taxation paid		(369 086)	(368 099)
Net cash (utilised in)/generated from operating activities		(80 514)	3 188 143
Cash flows from investing activities			
Acquisition of intangible assets	4.2	(75 931)	(31 183)
Proceeds on disposal of intangible assets		51	—
Proceeds on disposal of property, plant and equipment		5 230	6 486
Acquisition of property, plant and equipment	4.3	(134 028)	(71 640)
Acquisition of subsidiary net of cash acquired	2.4	(7 162)	(291 240)
Acquisition of associate		—	(6 124 127)
Transaction costs on associates		—	(55 131)
Capital contribution to Oxigen Services India		—	(25 076)
Purchase of bond notes	3.7	—	(117 037)
Liquidity support granted	3.7	(326 388)	—
Loan repaid by Cell C		1 135 759	—
Loan granted to Cell C		(106 132)	(1 017 522)
Loans advanced to associates and joint ventures		(13 284)	(31 641)
Loans repaid by associates and joint ventures		1 690	—
Dividend received from associate and joint venture		17 992	4 251
Loans granted		(29 916)	(54 981)
Loans receivable repaid		96 007	78 329
Settlement of contingent consideration		(2 614)	(27 867)
Net cash generated by/(utilised in) investing activities		561 274	(7 758 379)
Cash flows from financing activities			
Interest-bearing borrowings raised	3.6.2	993 439	935 442
Interest-bearing borrowings repaid	3.6.2	(769 652)	—
Non-interest-bearing borrowings raised	3.6.2	35 876	—
Non-interest-bearing borrowings repaid	3.6.2	(170)	(58)
Proceeds from shares issued	6.1	—	3 650 000
Transaction costs on share issue		—	(12 424)
Share buy-back		(224 006)	—
Acquisition of treasury shares	6.1	(42 378)	(28 846)
Dividends paid to non-controlling interest		(35 550)	(27 750)
Dividends paid to equity holders of the parent		—	(349 804)
Net cash (utilised in)/generated by financing activities		(42 441)	4 166 560
Net increase/(decrease) in cash and cash equivalents		438 319	(403 676)
Cash and cash equivalents at the beginning of the year		947 888	1 350 666
Exchange gains on cash and cash equivalents		(8 454)	898
Cash and cash equivalents at the end of the year	3.5.4	1 377 753	947 888

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For the year ended 31 May 2019

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		Africa Distribution	
	2019 R'000	Restated* 2018 R'000	2019 R'000	2018 R'000
Total segment revenue	35 711 586	33 567 250	35 004 904	32 897 392
Internal revenue	(9 842 153)	(6 833 001)	(9 640 836)	(6 652 186)
Revenue	25 869 433	26 734 249	25 364 068	26 245 206
Segment result				
Operating profit/(loss) before depreciation, amortisation and the additional items listed below	1 653 454	1 335 031	1 577 942	1 339 702
Impairment of loans	(163 663)	(142 069)	(2 081)	—
Impairment of goodwill	(124 400)	—	(50 398)	—
Financial guarantee contracts	(58 832)	—	3 300	—
Net fair value (loss)/gain on SPV1 and SPV2	(750 264)	5 122	(750 264)	5 122
Fair value loss on fair value loans	(123 613)	—	(123 613)	—
Surety receivable recognised	29 998	55 005	—	—
Depreciation and amortisation	(253 016)	(155 540)	(222 513)	(139 633)
Operating profit/(loss)	209 664	1 097 549	432 373	1 205 191
Finance costs	(245 957)	(306 636)	(227 030)	(300 042)
Finance income	99 705	195 298	81 125	161 937
Impairments on associates and joint venture	(2 669 076)	—	(2 521 152)	—
Share of (losses)/profits from associates and joint ventures	(3 701 410)	520 628	(3 612 076)	583 122
Taxation	(315 122)	(331 069)	(271 205)	(292 860)
Net profit/(loss) for the year	(6 622 196)	1 175 770	(6 117 965)	1 357 348
Net profit for the year attributable to:				
Equity holders of parent	(6 646 383)	1 122 085	(6 127 507)	1 344 641
Non-controlling interest	24 187	53 685	9 542	12 707
Reconciliation of net profit for the year to core headline earnings for the year				
Net profit/(loss) for the year	(6 646 383)	1 122 085	(6 127 507)	1 344 641
Amortisation of intangibles raised through business combinations net of tax and non-controlling interest	70 485	44 345	61 151	40 853
Core net profit/(loss) for the year*	(6 575 898)	1 166 430	(6 066 356)	1 385 494
Headline earnings adjustment	3 792 743	(5 953)	3 530 852	(755)
Core headline earnings for the year*	(2 783 155)	1 160 477	(2 535 504)	1 384 739
The segment assets and liabilities at 31 May are as follows:				
Assets excluding investments in and loans to associates and joint ventures	11 862 530	10 225 183	10 977 541	9 450 957
Investments in and loans to associates and joint ventures	218 842	7 714 211	31 380	7 220 632
Total assets	12 081 372	17 939 394	11 008 921	16 671 589
Additions to non-current assets				
Property, plant and equipment	179 011	80 264	174 786	68 691
Intangible assets and goodwill	520 018	1 138 707	515 429	1 134 090
Investment in associates	562	6 444 778	562	6 444 778
Total liabilities	(9 589 810)	(8 424 309)	(9 022 934)	(8 125 783)

* As a result of the prior year errors the Group has restated their comparative financial information. Refer to note 11 for details.

The Company is domiciled in the Republic of South Africa. The result of its revenue from external customers in South Africa is R24.9 billion (2018: R26.5 billion), and the total revenue from external customers from other countries is R973 million (2018: R334 million).

The total non-current assets other than financial instruments and deferred tax assets located in South Africa is R9.4 billion (2018: R8.9 billion), and the total non-current assets located in other countries is R297 million (2018: R469 million).

The Africa Distribution segment includes revenue of R3.6 billion earned from one external customer.

1. RESULTS OF OPERATIONS *continued*

1.1 Segmental summary *continued*

At 31 May 2019, the Group is managed on the basis of five main business segments:

- ▶ Africa Distribution, which includes the distribution of prepaid airtime, starter packs and electricity of the South African network operators and utility suppliers, and the distribution of handsets, tablets and other devices within South Africa and certain African countries.
- ▶ International, which includes distribution of prepaid airtime in Mexico and the venture capital investment of Oxigen Services India (refer to note 2.1).
- ▶ 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	
2019 R'000	Restated* 2018 R'000	2019 R'000	Restated* 2018 R'000	2019 R'000	2018 R'000	2019 R'000	2018 R'000
35 013	—	274 869	304 342	205 106	196 762	191 694	168 754
—	—	(7 755)	(10 388)	(1 868)	(1 673)	(191 694)	(168 754)
35 013	—	267 114	293 954	203 238	195 089	—	—
51 369	(2 903)	99 016	101 883	38 049	42 838	(112 922)	(146 489)
(101 725)	(70 926)	(37)	(217)	(263)	—	(59 557)	(70 926)
—	—	(74 002)	—	—	—	—	—
—	—	—	—	—	—	(62 132)	—
—	—	—	—	—	—	—	—
29 998	55 005	—	—	—	—	—	—
(14 145)	—	(14 499)	(14 833)	(292)	(383)	(1 567)	(691)
(34 503)	(18 824)	10 478	86 833	37 494	42 455	(236 178)	(218 106)
(11)	—	(226)	(333)	—	(1)	(18 690)	(6 260)
7 947	15 224	3 643	5 831	3 154	950	3 836	11 356
(118 412)	—	(29 512)	—	—	—	—	—
(110 441)	(66 682)	(1 662)	(391)	22 769	4 579	—	—
(1 253)	(2 199)	(24 049)	(25 909)	(10 453)	(11 648)	(8 162)	1 547
(256 673)	(72 481)	(41 328)	66 031	52 964	36 335	(259 194)	(211 463)
(263 260)	(98 538)	(39 985)	57 609	43 563	29 836	(259 194)	(211 463)
6 587	26 057	(1 343)	8 422	9 401	6 499	—	—
(263 259)	(98 538)	(39 985)	57 609	43 563	29 836	(259 194)	(211 463)
7 675	1 548	1 659	1 944	—	—	—	—
(255 585)	(96 990)	(38 326)	59 553	43 563	29 836	(259 194)	(211 463)
165 443	(5 164)	96 448	126	—	(22)	—	(138)
(90 142)	(102 154)	58 122	59 679	43 563	29 814	(259 194)	(211 601)
299 209	100 511	430 490	515 542	136 969	124 858	18 321	33 315
140 038	425 977	20 052	45 788	27 372	21 814	—	—
439 247	526 488	450 542	561 330	164 341	146 672	18 321	33 315
19	126	3 539	8 245	667	268	—	2 934
—	—	4 589	4 603	—	—	—	14
—	—	—	—	—	—	—	—
(86 374)	(17 858)	(167 166)	(136 930)	(15 445)	(6 337)	(297 891)	(137 401)

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 4/2018.

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 2019

1. RESULTS OF OPERATIONS continued

1.2 Revenue

The Group earns revenue from the sale of goods and the provision of services through its vast proprietary distribution channels and platforms. Owing to the wide array of products and services provided, the Group interacts with a broad cross-section of South African society, but also trades in Southern Africa, India, Mexico and Brazil. The Group generates revenue based on various contractual arrangements with its customers, the major sources of which are listed below. These sources aggregate revenue by nature, extent, timing and risk.

Revenue source	Performance obligations included	Recognition
Prepaid airtime, data and related revenue	a. Prepaid airtime and data The sale of prepaid airtime and data represents the majority of Group revenue. Prepaid airtime and data is either physical PIN, virtual PIN or PINless. Physical PIN inventory is sold in bulk to customers (who themselves are generally distributors) as and when they place orders with Blue Label. Customers will either collect the physical stock at Blue Label depots or it will be delivered via courier to them. Virtual PIN inventory is delivered as a stock file via secure file transfer protocol to a customer's point of sales device, secure network location or sales terminal. This file contains the same information delivered to Blue Label by the mobile networks, being PIN numbers, product codes, serial numbers and expiry dates. PINless sales relate to airtime and data sold that is not in the form of either a virtual PIN or physical voucher and accordingly no inventories exist. Airtime or data is requested by an end user via one of the Group's customer's integrated systems, upon which Blue Label will automatically notify the applicable network to increase the relevant end user balance. Blue Label does not take control of PINless stock at any point. b. Commissions, bonuses and incentives Commissions, bonuses and incentives related to the sales of prepaid airtime and data are earned by the Group based on reward structures agreed with the cellular network providers.	a. Prepaid airtime and data Physical and virtual PIN inventory sales are recognised on transfer of control of stock to the customer. Control is transferred at the point of delivery of physical stock or stock files to the customer. In general the Group does not provide warranties, nor the right of return on inventory that has been delivered as it cannot reasonably determine whether any PINs have already been activated. The Group considers itself as the principal in the sale of PIN inventory sales, and thus recognises the full face value (transaction price) of the voucher sold net of any discounts in revenue. PINless sales are recognised on the successful completion of the airtime or data reload transaction, which culminates in an increase of the end user's balance. It is at this point that the Group has completed its performance obligation to connect the parties through its integrated system and facilitate the transaction. The Group considers itself as the agent in the sale of PINless airtime and data, and thus recognises only the commission on the sale as revenue. b. Commissions, bonuses and incentives Commissions, bonuses and incentives related to the sales of prepaid airtime are recognised on a systematic basis (generally monthly) once the Group has established its right to receive payment based on the achievement of the sales, activations or recharges criteria for the period measured.
Postpaid airtime, data and related revenue	a. Postpaid airtime and data Postpaid revenue is different in nature, timing and risk to prepaid airtime and accordingly is managed as a separate source. Postpaid airtime is generally sold in terms of hybrid postpaid arrangements with customers. Hybrid arrangements provide the customer with a fixed amount of airtime which, when exhausted, will result in the conversion of the customer to prepaid. Both postpaid and prepaid revenue generated in terms of this delivery model is included in this aggregation. The Group's performance obligation on a hybrid contract is to make available an active line for the month and provide the agreed airtime value for the customer to use on that line. b. Commissions, bonuses and incentives Commissions, bonuses and incentives related to these arrangements, including the sale of prepaid airtime and data to this customer base, are earned by the Group in accordance with reward structures agreed with the cellular network providers.	a. Postpaid airtime and data Revenue earned on postpaid and hybrid contracts is recognised monthly when invoiced to the customer in arrears. The Group's performance obligation is the provision of a line with airtime supplied over the duration of the contract, and accordingly revenue is recognised over time. Sales of prepaid airtime to postpaid customers is recognised in the same manner as the sale of prepaid airtime to prepaid customers described above. b. Commissions, bonuses and incentives Commissions, bonuses and incentives are recognised on a systematic basis (generally monthly) once the Group has established its right to receive payment based on the achievement of the sales, activations or recharges criteria for the period measured.

1. RESULTS OF OPERATIONS continued

1.2 Revenue continued

Revenue is shown net of indirect taxes, estimated returns, rebates and discounts, and after eliminating sales within the Group.

The following table details the nature and timing of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies. Critical judgements and estimates made by management in the selection and application of its accounting policies are included for each major revenue source.

Measurement and terms of sale

a. Prepaid airtime and data

Physical and virtual PIN inventory sales are measured at the face value (transaction price) of the voucher sold net of any discounts. Payment arrangements vary per customer and can range from payment before delivery to terms of up to 60 days.

PINless sales are based on the commission percentage earned on the face value (transaction price) of the airtime and data sold. Payment terms for PINless sales do not generally exceed three days, with settlement usually taking place the next business day.

b. Commissions, bonuses and incentives

Commissions, bonuses and incentives are measured based on the contractual value or percentage commission earned in accordance with agreements between the Group and the relevant cellular network. Payment terms do not exceed 30 days.

Critical estimates and judgements

a. Prepaid airtime and data

The Group has considered whether it acts in the capacity of an agent or principal in the sale of physical and virtual PIN inventory. Among other considerations, the Group maintains control of the stock prior to sale and bears all risks related to it. The Group has concluded that in respect of these sales it acts as principal.

In relation to PINless sales, the Group has concluded that it acts in the capacity of an agent as its primary responsibility is the facilitation of the reload transaction rather than the handling and distribution of an inventory item.

b. Commissions, bonuses and incentives

No significant judgements or estimates.

a. Postpaid airtime and data

Revenue earned on postpaid and hybrid contracts is measured at the face value (transaction price) of the fixed airtime provided, net of any discounts. Payment terms are generally 30 days from invoice. Prepaid airtime sold to postpaid customers is measured in the same manner described above for sales to prepaid customers.

b. Commissions, bonuses and incentives

Commissions, bonuses and incentives are measured based on the contractual value or percentage commission earned in accordance with agreements between the Group and the relevant cellular network. Payment terms do not exceed 30 days.

a. Postpaid airtime and data

The Group acts in the capacity of principal in relation to postpaid and hybrid contracts as the Group takes the full inventory risk, sets the price for these contracts to the end users and is the primary obligor.

b. Commissions, bonuses and incentives

No significant judgements or estimates.

Notes to the Group annual financial statements continued

For the year ended 31 May 2019

1. RESULTS OF OPERATIONS continued

1.2 Revenue continued

Revenue source	Performance obligations included	Recognition
Prepaid and postpaid SIM cards	a. SIM cards and pre-loaded airtime Physical SIM cards are either sold to customers independently or with pre-loaded airtime through the Group's wholesale and retail distribution channels. The sale of a SIM card with pre-loaded airtime is considered one performance obligation by the Group and accounted for entirely within this aggregation. b. Activation bonuses and ongoing revenue Activation bonuses are earned from the cellular networks on the successful activation of a SIM card. Ongoing commissions are earned on any subsequent airtime recharges by the customer utilising the SIM card.	a. SIM cards and pre-loaded airtime Revenue earned on the sale of the physical SIM card starter pack inventory, as well as pre-loaded airtime, is recognised when a SIM card is initially sold to the customer. b. Activation bonuses and ongoing revenue Activation bonuses received from the networks are recognised when the SIM card is activated on the relevant mobile network. Activation criteria, as well as the point of activation, is determined by the mobile networks. Ongoing revenue and other incentives are recognised once the associated contractual criteria have been met.
Services	Major sources of services revenue include: location-based services, SMS transaction services, value-added services in the form of media and content supply to customers, call centre and data transaction services, technology services, and payment provision services.	Revenue earned from services is recognised in the accounting period in which they are rendered. Where services revenue is recognised over time, the completion of the specific transaction is assessed on the basis of the actual service provided as a proportion of the total service to be provided. Due to the nature of the services rendered by the Group, most are short term in duration (less than one month), and seldom, if ever, impact more than one accounting period.
Electricity commissions	The Group earns commissions on the facilitation of prepaid electricity sold to customers on behalf of utility suppliers.	Electricity commissions earned are recognised on the sale of a voucher to the customer. The Group cannot accept returned vouchers. Vouchers expire 12 months after issue; however, the number of expired vouchers is not significant and thus does not materially affect the quantum of commissions earned.
Handsets, tablets and other devices	This category represents revenue earned on the sale of handsets, tablets, accessories and other devices to customers through the Group's wholesale and retail distribution channels.	Revenue from the sale of these goods is recognised at a point in time when control of the goods transfers to the customer, which is generally on acceptance of the goods by the customer.
Finance revenue	Interest income earned on financing arrangements where the core business of the Group is the provision of financing to its customers in its capacity as a principal financier.	Finance revenue is recognised on the accrual basis over the term of the financing provided.
Other revenue	Other revenue earned by the Group on products and services which are incidental or complementary to those described above include the installation of prepaid electric meters, electricity audit projects undertaken on electricity sales for municipalities, rentals earned on point of sale and other devices used to facilitate the above major revenue streams, and the sale of tickets for transportation and to sporting events.	Revenue is recognised either at a point in time or over time as control is transferred to the customer in the arrangement.

1. RESULTS OF OPERATIONS continued

1.2 Revenue continued

Measurement and terms of sale	Critical estimates and judgements
a. SIM cards and pre-loaded airtime Revenue on the sale of the physical SIM card starter pack inventory and any pre-loaded airtime is measured at the individual selling price of the inventory and pre-loaded airtime, net of any discounts. Where the SIM card starter pack inventory is sold on extended credit terms (greater than 12 months), the revenue recognised is reduced by the financing component, which is subsequently recognised over the projected term at the effective interest rate. The payment terms for SIM card starter pack inventory sales sold on normal payment terms are between 30 and 90 days. Extended terms vary between three and 48 months. b. Activation bonuses and ongoing revenue Activation bonuses and ongoing commissions are measured at the contractual amounts receivable. The payment terms for activation bonuses and ongoing commissions are between 30 and 90 days.	a. SIM cards and pre-loaded airtime Critical estimates include the estimation of the anticipated repayment term and discount rate for SIM card inventory sold on extended credit terms. The Group uses the South African Reserve Bank prime lending rate as a reference to determine the rate used in assessing the significant financing component of these sales. The Group acts in the capacity of a principal on the sale of SIM card inventory. b. Activation bonuses and ongoing revenue The Group recognises the variable consideration relating to ongoing revenue as and when it is received because it is only at this point that it is highly probable that a significant reversal in revenue for that contract will not occur in the future. Ongoing revenue is fully constrained at the individual contract level due to the high variability in behaviour of the individual customers, including the period over which prepaid customers remain on the same SIM card (this can range from one day to a number of years) and the spending patterns of individual customers, which is also highly variable. In addition, because the terms of the ongoing revenue structure with the telecommunication companies are regularly up for negotiation, the Group is not able to predict the likelihood or magnitude of a revenue reversal.
Revenue earned on transactions linked services is measured at the effective unit selling price of the service provided at the point of provision. If the service is not directly transaction linked, or provided over a longer period of time, the proportion of the selling price relating to the actual services provided compared to the total services to be provided is recognised on a monthly basis in arrears. Payment terms are between one day and 30 days.	The Group applies its judgement in the recognition of services revenue as either principal or agent. This will depend on the nature and contractual arrangements of the service provided. The Group considers who controls the service prior to it being provided, who is responsible for the performance of the service and who sets the price for the service provided. Due to the short-term nature of the services provided by the Group, no significant judgements or estimates are required to be made regarding the timing or amount of revenue recognised.
Electricity commissions earned are measured at the contractually agreed commission percentage per rand of electricity sold. Payment terms are generally 30 to 60 days.	The Group acts in the capacity of an agent in relation to electricity commissions. The Group has applied the same factors as those considered for services revenue in making this determination.
Revenue on the sale of these goods is measured at the effective selling price of the items sold after subtracting discounts and rebates granted to customers on volume purchases and early settlement where applicable. Payment terms are between 30 and 60 days.	The Group has assessed that the right of return that customers have in relation to sold goods does not have a significant impact on the revenue recognised. This is due to the fact that the majority of returns are related to products returned under warranty where back to back warranty arrangements are in place with the product manufacturer and thus there is a minimal impact on revenue recognised.
Finance revenue is measured at the effective interest rate implicit in the financing arrangement.	No significant judgements or estimates.
Revenue is measured at the consideration received in terms of the arrangement with the customer. Payment terms are generally between 30 and 60 days.	No significant judgements or estimates.

Notes to the Group annual financial statements continued

For the year ended 31 May 2019

1. RESULTS OF OPERATIONS continued

1.2 Revenue continued

	Total		Africa Distribution	
	2019 R'000	Restated* 2018 R'000	2019 R'000	2018 R'000
Revenue from contracts with customers				
Prepaid airtime, data and related revenue	20 789 313	22 968 967	20 789 313	22 968 967
Postpaid airtime, data and related revenue	141 405	110 535	141 405	110 535
Prepaid and postpaid SIM cards	964 054	889 001	964 054	889 001
Services	748 441	600 580	245 693	117 983
Electricity commission	347 538	299 850	347 538	299 850
Handsets, tablets and other devices	2 271 804	1 586 817	2 271 804	1 586 817
Other revenue	179 125	106 871	176 508	100 425
Finance revenue	427 753	171 628	427 753	171 628
	25 869 433	26 734 249	25 364 068	26 245 206

* As a result of the prior year errors the Group has restated their comparative financial information. Refer to note 11 for details.

International		Mobile		Solutions	
2019 R'000	2018 R'000	2019 R'000	Restated* 2018 R'000	2019 R'000	2018 R'000
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
35 013	—	264 497	287 508	203 238	195 089
—	—	—	—	—	—
—	—	—	—	—	—
—	—	2 617	6 446	—	—
—	—	—	—	—	—
35 013	—	267 114	293 954	203 238	195 089

Notes to the Group annual financial statements continued

For the year ended 31 May 2019

1. RESULTS OF OPERATIONS continued

1.3 Operating profit

	Notes	2019 R'000	2018 R'000
The following has been charged/(credited) in arriving at operating profit:			
Fair value uplift		(27 741)	—
Contingent purchase price release		(211)	(1 390)
Fair value gain on financial instruments		—	(51 001)
Acquisition-related costs		—	6 041
Advertising and promotional expenses		24 509	27 426
Audit fees – services as auditors		29 770	22 018
Audit fees – other		1 436	2 816
Consulting fees		91 451	48 467
Finance costs incurred in generating finance revenue		177 100	71 656
Foreign exchange (gain)/loss (refer to note 3.3)		(36 621)	19 648
Impairment of inventory		5 024	5 489
IT infrastructure costs and computer-related costs		48 722	34 497
Legal fees		12 579	923
Profit on disposal of subsidiary		—	(2 824)
Motor vehicle expenses		15 822	11 623
Operating lease rentals – premises		59 188	40 999
(Profit)/loss on disposal of property, plant and equipment		(761)	(1 784)

1. RESULTS OF OPERATIONS continued

1.3 Operating profit continued

	Notes	2019 R'000	2018 R'000
Impairments and fair value losses comprise the following:			
<i>Arising from the application of IFRS 9 expected credit loss requirements:</i>			
Impairment of loans		163 663	142 069
Financial guarantee contracts	3.6.3	58 832	—
Impairment of trade receivables – provision	3.1	15 200	18 790
Trade receivables written off		6 115	7 443
<i>Other impairments and fair value movements:</i>			
Impairment of goodwill	4.1	124 400	—
Surety receivable recognised	3.5.1	(29 998)	(55 005)
Fair value losses on financial instruments		873 877*	45 360
		1 212 089	158 657
* This amount includes the fair value losses on SPV1, SPV2 and loans at fair value, net of VAT. Refer to note 3.7.			
Impairments on associates and joint venture comprise the following:			
Impairment of investment in OSI	2.1	118 412	—
Impairment of investment in Cell C	2.1	2 521 152	—
Impairment of investment in SupaPesa	2.1	29 512	—
		2 669 076	—
<i>Included in impairments and fair value losses and impairments on associates and joint ventures above are the following:</i>			
Impairments and fair value losses relating to Oxigen			
Impairment of 2DFine loan	2.1	130 718	141 852
Impairment of OSI loan	2.1	30 511	—
Financial guarantee contracts	3.6.3	62 132	—
Impairment of investment in OSI	2.1	118 412	—
Surety receivable recognised	3.5.1	(29 998)	(55 005)
		311 775	86 847
Impairments and fair value losses relating to Cell C			
Impairment of investment in Cell C	2.1	2 521 152	—
Fair value loss on SPV1 and SPV2	3.7	750 263	45 360
		3 271 415	45 360

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.

Where the core business of a Group subsidiary is providing finance to its customers, the interest earned from these customers is recognised as revenue and the related interest incurred is recognised in changes in inventories of finished goods in the income statement. In all other scenarios, interest is recognised as a finance income or finance expense below operating profit.

	2019 R'000	2018 R'000
Finance costs		
– Bank	842	170
– Loans and facilities	208 612	162 647
– Unwinding of contingent purchase price	189	591
– Related-party loans (refer to note 8)	149	—
– Other	21 340	3 205
– Discounting of payables	14 825	140 023
	245 957	306 636
Finance income		
– Bank	(31 300)	(33 006)
– Loans	(7 585)	(23 331)
– Related-party loans (refer to note 8)	(45 528)	(123 940)
– Other	(12 396)	(11 549)
– Discounting of receivables	(2 896)	(3 472)
	(99 705)	(195 298)
Net finance costs	146 252	111 338

Notes to the Group annual financial statements continued

For the year ended 31 May 2019

1. RESULTS OF OPERATIONS continued

1.5 Earnings per share

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*.

(a) Headline earnings, earnings and core headline earnings per share

	Attributable earnings		Cents per share	
	2019 R'000	Restated* 2018 R'000	2019	Restated* 2018
Headline earnings per share				
Basic	(2 853 640)	1 116 131	(312.49)	130.44
Diluted ¹		1 052 737		122.34
Core	(2 783 155)	1 160 477	(304.77)	135.62
Earnings attributable to ordinary equity holders				
Basic	(6 646 383)	1 122 085	(727.81)	131.13
Diluted ¹		1 058 691		123.03

¹ There are no dilutive instruments in the current year.

(b) Weighted average number of shares

	2019 '000	2018 '000
Weighted average number of ordinary shares	913 208	855 687
Adjusted for forfeitable shares	—	4 801
Weighted average number of ordinary shares for diluted earnings ¹	913 208	860 488

¹ There are no dilutive instruments in the current year.

The same weighted average number of shares for basic earnings per share is used for core headline earnings per share.

(c) Analysis of headline earnings

	(Loss)/profit before tax and non- controlling interest R'000	Tax R'000	Non- controlling interest R'000	Headline earnings R'000
2019				
Loss attributable to equity holders of the parent	(6 307 074)	(315 122)	(24 187)	(6 646 383)
Profit on disposal of property, plant and equipment	(1 155)	323	74	(758)
Impairment of property, plant and equipment	2 002	(561)	—	1 441
Impairment of intangible assets	5 111	(1 431)	—	3 680
Foreign currency translation reserve recycled to profit or loss	(144)	—	—	(144)
Impairments on investments	2 669 376	—	(7 378)	2 661 998
Fair value uplift on conversion from an associate to a subsidiary	(27 741)	—	—	(27 741)
Profit on disposal of property, plant and equipment in associate	(5 524)	—	—	(5 524)
Impairment of goodwill	124 400	—	—	124 400
Impairment of investment within associate equity accounted earnings	47 174	—	—	47 174
Impairment of property, plant and equipment in associate	801 049	—	—	801 049
Impairment of intangible assets in associate	187 168	—	—	187 168
Headline earnings				(2 853 640)

1. RESULTS OF OPERATIONS continued

1.5 Earnings per share continued

Core headline continued

(c) Analysis of headline earnings continued

	Profit before tax and non- controlling interest R'000	Tax R'000	Non- controlling interest R'000	Headline earnings R'000
2018 - restated*				
Profit attributable to equity holders of the parent	1 506 839	(331 069)	(53 685)	1 122 085
Profit on disposal of property, plant and equipment	(1 784)	499	13	(1 272)
Impairment of property, plant and equipment	3 800	(1 064)	—	2 736
Impairment of intangible assets	338	(95)	—	243
Foreign currency translation reserve recycled to profit or loss	(3 098)	—	—	(3 098)
Profit on disposal of subsidiary	(2 824)	—	—	(2 824)
Profit on disposal of property, plant and equipment in associate	(16 771)	4 696	—	(12 075)
Impairment of intangible assets in associate	14 355	(4 019)	—	10 336
Headline earnings				1 116 131

* As a result of the prior year error the Group has restated their comparative financial information. Refer to note 11 for details.

(d) Reconciliation of earnings from basic to diluted

	Earnings Restated* 2018 R'000	Headline earnings Restated* 2018 R'000
Basic earnings	1 122 085	1 116 131
Dilutive instrument ¹	(4 842)	(4 842)
Dilutive instrument in associate ²	(58 552)	(58 552)
Dilutive earnings	1 058 691	1 052 737

¹ The dilutive instrument represents the effect of the dilution in Panacea Mobile Proprietary Limited and Simigenix Proprietary Limited. Refer to the statement of changes in equity.

² The dilutive instrument in associate refers to the potential dilution of the Group's shareholding in Cell C Limited due to its equity-settled share scheme. In the current year this instrument was anti-dilutive.

(e) Analysis of core headline earnings

	2019 R'000	Restated* 2018 R'000
Reconciliation between net profit for the period and core headline earnings for the period:		
Net profit for the period	(6 646 383)	1 122 085
Amortisation on intangibles raised through business combinations net of tax and non-controlling interest	70 485	44 345
Core net profit for the period	(6 575 898)	1 166 430
Headline earnings adjustments	3 792 743	(5 953)
Core headline earnings	(2 783 155)	1 160 477

* As a result of the prior year error the Group has restated their comparative financial information. Refer to note 11 for details.

Notes to the Group annual financial statements continued

For the year ended 31 May 2019

1. RESULTS OF OPERATIONS continued

1.6 Cash generated by operations

	2019 R'000	Restated** 2018 R'000
Reconciliation of operating profit to cash generated by operating activities:		
Operating profit	209 664	1 097 549
Adjustments for:		
Depreciation of property, plant and equipment	72 964	46 144
Amortisation of intangible assets	203 429	138 972
Fair value gain on financial instruments	(18 765)	(51 001)
Fair value loss on financial instruments	873 877	45 360
Fair value uplift on conversion from an associate to a subsidiary	(27 741)	—
Impairment of intangible assets	5 111	338
Impairment of property, plant and equipment	2 002	3 800
Impairment of goodwill	124 400	—
Impairment of loans	163 663	142 069
Impairment of inventory	5 024	5 489
Discounting of receivables	2 647	3 472
Discounting of loans and other payables	(14 825)	(73 697)
Surety receivable recognised	(29 998)	(55 005)
Loan release*	—	(11 349)
Profit on disposal of property, plant and equipment	(761)	(1 784)
Profit on disposal of subsidiary	—	(2 824)
Foreign currency translation reserve recycled on disposal of subsidiary	(144)	(3 098)
Contingent purchase price release	—	(1 390)
Equity compensation benefit expense	7 726	23 862
B-BBEE charge	—	1 400
Net unrealised forex (profit)/loss	(34 284)	9 795
Changes in working capital (excluding the effects of acquisitions and disposals):		
(Increase)/decrease in inventories	(864 165)	1 712 311
Increase in trade and other receivables	(434 190)	(566 585)
Increase in trade and other payables	207 740	1 050 550
(Increase)/decrease in advances to customers	(22 087)	74 401
	431 287	3 588 779

* This loan release relates to loan forgivenesses received in the prior year on the liquidation of Africa Prepaid Services Nigeria Limited.

** As a result of the prior year error the Group has restated their comparative financial information. Refer to note 11 for details.

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 the 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.

(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.

When entering into a written put on a non-controlling interest, the initial liability is recognised at the present value of the expected settlement price with a corresponding adjustment to equity, thereafter if the non-controlling interest continues to be recognised, the Group takes subsequent changes in the expected changes in the liability as an adjustment in profit or loss. The Group believes this is an appropriate accounting policy, because as there is no clear guidance in IFRS as to whether IFRS 9 or 10 should be applied to the presentation of the remeasurement of a liability.

(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.

(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.

Notes to the Group annual financial statements continued

For the year ended 31 May 2019

2. **GROUP COMPOSITION** continued

Basis of consolidation continued

(d) Associates and joint ventures continued

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 excludes equity-settled share-based payment charges from its share in profits or losses from associates and joint ventures. As a result, it does not recognise the corresponding attributable share of the related share-based payment reserve within equity.

The Group determines at each reporting date if there are any indicators which would require the Group to test whether 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.

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.

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. In the current year there were significant impairments on our associates, the details related to which are included in note 2.1.

(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.

2. GROUP COMPOSITION continued

Basis of consolidation continued

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. The investment was classified as a joint venture as unanimous approval of the shareholders is required for decisions.

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

Cell C Limited

Blue Label Telecoms acting through its wholly owned subsidiary, The Prepaid Company Proprietary Limited, acquired a 45% interest in Cell C Limited. The Group will be entitled to appoint four of the 11 directors to the Cell C board which will represent 36% of the overall votes of the board. Based on the Group's shareholding and representation on the board, management has assessed Cell C Limited to be an associate as the Group will have the power to participate in (but not control) the financial and operating policy decisions of Cell C Limited.

3G Proprietary Limited

Blue Label Telecoms acting through its wholly owned subsidiary, The Prepaid Company Proprietary Limited (TPC), concluded an agreement to acquire 100% of 3G Mobile Proprietary Limited (3G Mobile) from its shareholders. The acquisition has been structured in two stages, whereby 47.37% was initially acquired and the remaining 52.63% was acquired, subject to the fulfilment of conditions precedent, the last of which was Competition Tribunal consent. During the initial stage where TPC owned 47.37%, TPC could appoint two out of eight of the directors on the board of 3G Mobile. Based on board representation and shareholding prior to the Competition Tribunal consent management concluded this was an associate as the Group would have the power to participate in (but not control) the financial and operating policy decisions of 3G Mobile.

Oxygen Services India Private Limited (Oxygen Services India) and Oxygen Online Services India Private Limited (Oxygen Online)

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. BLT's investment through GLI is classified as a joint venture as unanimous approval of the shareholders is required for decisions. As at 31 May 2019, 2DFine Holdings Mauritius and GLI hold 33.89% and 41.90% respectively of Oxygen Services India. BLT therefore has an effective interest of 58.85% in Oxygen Services India.

Based on the nature of Oxygen Services India and Oxygen Online, management has concluded that the relevant activities (based on IFRS 10 paragraph B11 – B12) of these entities include:

- ▶ Establishing budgets and business plans.
- ▶ Determining or managing capital and obtaining funding.
- ▶ Appointing/terminating and remunerating key management personnel.

Decisions over these relevant activities are made by the majority vote of the board of directors. The ability of the shareholders to appoint directors to the board is dictated by the shareholders' agreement which requires:

- ▶ GLI (BLT wholly owned subsidiary) – up to a maximum of three directors
- ▶ 2DFine (Joint Venture of BLT with Neptune) – up to a maximum of two directors
- ▶ Neptune (unrelated third party) – up to a maximum of three directors

Notes to the Group annual financial statements continued

For the year ended 31 May 2019

2. GROUP COMPOSITION continued

Basis of consolidation continued

(d) Classification of significant associates continued

Oxygen Services India Private Limited (Oxygen Services India) and Oxygen Online Services India Private Limited (Oxygen Online) continued

BLT is able to appoint three directors to the board and therefore does not have current rights that give it power over the investee (IFRS 10 paragraph B14 – B15). In addition to this, the shareholders' agreement dictates that the other shareholder, Neptune, has the power to appoint the Managing Director and Chairman of the company with management control over the company and with responsibility of running the day-to-day affairs of the company.

As the Group has no power over the investee we have concluded that the Group has significant influence over the financial and operating policies of Oxygen Services India and Oxygen Online and accounts for these as associates even though the Group effectively owns more than 50%.

(e) Deferred tax assessment in associates

Prior to the acquisition of Cell C Limited on 2 August 2017, a deferred tax asset of R2 172 million had been recognised by it relating to unrecognised tax losses. Post-acquisition, a further R1 922 million deferred tax asset was recognised for the year ended 31 May 2018, at which date the deferred tax asset totalled R4 094 million. For the year ended 31 May 2019, the entire deferred tax asset was derecognised.

The Group applied its judgement as to whether a deferred tax asset relating to unrecognised tax losses should be recognised at the acquisition date. IAS 12 *Income Taxes*, explains that a deferred tax asset should be recognised for tax losses to the extent that it is probable that future profits will be available against which the unused tax losses can be utilised. On the one hand, IAS 12 explains that a history of recent losses is strong evidence that a deferred tax asset should not be recognised. However, IAS 12 also explains that when the tax losses arise from identifiable causes which are unlikely to recur, this may indicate that a deferred tax asset should be recognised. Based on the factors in IAS 12, the Group concluded that it was probable that a deferred tax asset of R2 172 million would be recoverable at the acquisition date.

Following the acquisition date, subsequent events provided Cell C with additional comfort that it was probable that a further amount of the unrecognised tax losses would be utilised in the future, resulting in the post-acquisition recognition of a further R1 922 million deferred tax asset in Cell C. This resulted in the Group recognising its share of this tax benefit (R865 million) as part of its equity accounted earnings for the year ended 31 May 2018.

The events giving rise to the additional deferred tax asset being recognised post-acquisition, for the year ended 31 May 2018, were as follows:

- ▶ Finalisation of the recapitalisation transaction reducing Cell C's debt and effectively increasing taxable income due to the reduction in the interest rate as well as the hedging cost against the foreign exchange exposure.
- ▶ Cell C operating performance being better than that expected at the acquisition date. ICASA received a complaint that Cell C had contravened their licence regulations. This created a risk that Cell C could lose their licence. The ICASA ruling in favour of Cell C that there was no transfer of the licence was only received on 29 November 2017.
- ▶ Cost-saving initiatives were identified and implemented by Cell C management post the recapitalisation plan that were not previously assessed.

As at 31 May 2019, based on estimated future profitability, not taking into account the benefits of new technology, expansionary growth or the pending recapitalisation transaction, the company derecognised its entire deferred tax asset for the underlying reasons:

- ▶ A significant downward revision of the mobile subscriber base;
- ▶ A substantial decline in equipment, Mobile Virtual Network Operator and Business Service Provider revenues;
- ▶ Additional revenue initiatives that did not materialise;
- ▶ A decline in the economic environment and increased competition in data pricing;
- ▶ The content strategy did not realise the benefits as anticipated;
- ▶ No expansionary capital expenditure incurred over the past 10 months to support technology advancements and growth;
- ▶ The capital structure remained a challenge which contributed to high cost of debt;
- ▶ Adverse trading conditions; and
- ▶ Devaluation of the rand.

2. GROUP COMPOSITION *continued*

2.1 Investments in and loans to associates and joint ventures

The Group holds the following investments in and loans to associates and joint ventures:

	Cost and share of reserves		Loans		Total investments and loans	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000	2019 R'000	2018 R'000
Cell C Limited	—	6 095 459	—	1 029 626	—	7 125 085
Blue Label Mexico S.A. de C.V.	136 460	136 801	—	—	136 460	136 801
Oxygen Services Private Limited	—	207 188	—	34 017	—	241 205
Oxygen Online Services Private Limited	—	—	—	—	—	—
2DFine Group	—	(55 762)	—	100 837	—	45 075
Other associates	31 325	87 975	3 635	—	34 960	87 975
Other joint ventures	24 797	40 245	22 625	37 825	47 422	78 070
	192 582	6 511 906	26 260	1 202 305	218 842	7 714 211
Disclosed as:						
- Non-current assets	192 582	6 511 906	26 260	172 679	218 842	6 684 585
- Current assets	—	—	—	1 029 626	—	1 029 626

Loans to associates and joint ventures

		Total loans		Current		Non-current	
	Interest rate	2019 R'000	2018 R'000	2019 R'000	2018 R'000	2019 R'000	2018 R'000
SupaPesa South Africa Proprietary Limited	11%	5 650	6 265	—	—	5 650	6 265
United Call Centre Solutions Proprietary Limited	0%	16 976	18 190	—	—	16 976	18 190
Cell C Limited	17%	—	740 000	—	740 000	—	—
Cell C Limited	Prime less 0.5%	—	289 626	—	289 626	—	—
Oxygen Services Private Limited	Libor + 1.5%	—	34 017	—	—	—	34 017
2DFine Holdings	Libor + 1.5%	—	100 837	—	—	—	100 837
Prepaid24 Proprietary Limited	Prime	—	5 570	—	—	—	5 570
Prepaid24 Proprietary Limited	0%	—	7 800	—	—	—	7 800
T3 Telecoms SA Proprietary Limited	0%	3 634	—	—	—	3 634	—
		26 260	1 202 305	—	1 029 626	26 260	172 679

The loans as at 31 May 2019 are neither past due nor impaired with a low risk of default. The carrying amount of the loans approximates their fair value.

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 2019

2. GROUP COMPOSITION continued

2.1 Investments in and loans to associates and joint ventures continued

Company	Associate Cell C Limited		Joint venture Blue Label Mexico S.A. de C.V. Distributor of terminals to vend e-tokens of value		Associate Oxygen Services Private Limited Airtime and payment solutions provider	
Principal activity	South Africa		Mexico		India	
Country of incorporation	2019 R'000	2018 R'000	2019 R'000	2018 R'000	2019 R'000	Restated* 2018 R'000
Cost and share of reserves at the beginning of the year	6 095 459	—	136 801	173 669	207 188	262 657
Reversal of fair value adjustment*	—	—	—	—	—	(11 388)
Equity accounted adjustments*	—	—	—	—	—	(41 960)
Cost and share of reserves at the beginning of the year - restated for prior year error	6 095 459	—	136 801	173 669	207 188	209 309
Adjustment on the initial application of IFRS 9 and IFRS 15	35 189	—	—	—	(627)	—
Cost and share of reserves at the beginning of the year - restated for change in accounting standards	6 130 648	—	136 801	173 669	206 561	209 309
Acquisition of associates and joint ventures	—	5 532 891	—	—	—	—
Rights issue	—	—	—	—	—	12 675
Financial guarantee contracts raised (refer note 3.6.3)	—	—	—	—	—	—
Share of (losses)/profits from associates and joint ventures	(3 609 496)	562 568	(24 096)	(21 901)	(109 572)	(2 543)
Share of results after tax	(3 599 120)	571 214	(22 461)	(20 351)	(109 090)	(2 061)
Amortisation of intangible assets	(14 411)	(12 009)	(2 271)	(2 152)	(669)	(669)
Deferred tax on intangible assets amortisation	4 035	3 363	636	602	187	187
Foreign currency translation reserve	—	—	23 755	(14 967)	21 423	(12 253)
Dividends received	—	—	—	—	—	—
Impairment	(2 521 152)	—	—	—	(118 412)	—
Conversion of associate to subsidiary	—	—	—	—	—	—
Cost and share of reserves at the end of the year	—	6 095 459	136 460	136 801	—	207 188
Loans to associates and joint ventures						
Loans at the beginning of the year	1 029 626	—	—	—	34 017	34 310
Adjustment on the initial application of IFRS 9	—	—	—	—	(16 704)	—
Loans at the beginning of the year - restated	1 029 626	—	—	—	17 313	34 310
Loans granted to associates and joint ventures	106 133	1 029 626	—	—	7 467	1 025
Loans repaid by associates and joint ventures	(1 135 759)	—	—	—	—	—
Impairment of loans	—	—	—	—	(30 511)	—
Unrealised foreign exchange profit/(loss) on loans to associates and joint ventures	—	—	—	—	5 731	(1 318)
Loans at the end of the year	—	1 029 626	—	—	—	34 017
Closing net book value	—	7 125 085	136 460	136 801	—	241 205

* As a result of the prior year error the Group has restated their comparative financial information. Refer to note 11 for details.

¹ 2DFine Group consists of 2DFine Holdings Mauritius and 2DFine Investments Mauritius.

² R895 million represents the acquisition of 3G Mobile on 2 August 2017. This was converted to a subsidiary on 6 December 2017. R4 million (2017: R9.3 million) represents an equity loan granted to WiConnect Proprietary Limited. These loans are repayable from surplus reserves at the discretion of the Board.

³ The Group has accounted for its share of losses in 2DFine in excess of the cost of the investment due to the fact that the Group stands surety for certain banking facilities with RBL Bank India. Refer to note 3.2. In the current year the Group has recognised a guarantee contract liability in respect of this surety and therefore losses have not been recognised beyond the cost of the investments. Refer to note 3.6.3.

Associate		Joint venture		Other associates		Other joint ventures		Total	
Oxygen Online Services Private Limited		2DFine Group ¹							
Online payment solutions provider		Investment holding company							
India		India							
2019 R'000	Restated* 2018 R'000	2019 R'000	Restated* 2018 R'000	2019 R'000	2018 R'000	2019 R'000	2018 R'000	2019 R'000	Restated* 2018 R'000
—	24 692	(55 762)	4 201	87 975	82 551	40 245	40 275	6 511 906	588 045
—	(101 831)	—	(46 981)	—	—	—	—	—	(160 200)
—	77 139	—	(3 189)	—	—	—	—	—	31 990
—	—	(55 762)	(45 969)	87 975	82 551	40 245	40 275	6 511 906	459 835
—	—	—	—	(312)	—	(86)	—	34 164	—
—	—	(55 762)	(45 969)	87 663	82 551	40 159	40 275	6 546 070	459 835
—	—	—	—	562	911 888 ²	—	—	562	6 444 779
—	12 401	—	—	—	—	—	—	—	25 076
—	—	40 631	—	—	—	—	—	40 631	—
—	(31 037)	22 935	(11 604)	(5 192)	20 957	24 011	4 188	(3 701 410)	520 628
—	(31 037)	22 935	(11 604)	(4 156)	25 545	24 011	4 188	(3 687 881)	535 894
—	—	—	—	(1 439)	(6 372)	—	—	(18 790)	(21 202)
—	—	—	—	403	1 784	—	—	5 261	5 936
—	18 636	(7 804)	1 811	2 355	681	6 139	(1 587)	45 868	(7 679)
—	—	—	—	(1 992)	(1 620)	(16 000)	(2 631)	(17 992)	(4 251)
—	—	—	—	—	—	(29 512)	—	(2 669 076)	—
—	—	—	—	(52 071)	(926 482)	—	—	(52 071)	(926 482)
—	—	—	(55 762) ³	31 325	87 975	24 797	40 245	192 582	6 511 906
—	—	100 837	218 305	—	—	37 825	19 338	1 202 305	271 953
—	—	(8 606)	—	—	—	(13 521)	—	(38 831)	—
—	—	92 231	218 305	—	—	24 304	19 338	1 163 474	271 953
—	—	9 934	32 858	3 685	—	—	18 937	127 219	1 082 446
—	—	—	—	—	—	(1 411)	(450)	(1 137 170)	(450)
—	—	(130 718)	(141 850)	(50)	—	(268)	—	(161 547)	(141 850)
—	—	28 553	(8 476)	—	—	—	—	34 284	(9 794)
—	—	—	100 837	3 635	—	22 625	37 825	26 260	1 202 305
—	—	—	45 075	34 960	87 975	47 422	78 070	218 842	7 714 211

Notes to the Group annual financial statements continued

For the year ended 31 May 2019

2. GROUP COMPOSITION continued

2.1 Investments in and loans to associates and joint ventures continued

Company	Associate		Joint venture	
	Cell C Limited		Blue Label Mexico S.A. de C.V. Distributor of terminals to vend e-tokens of value	
Principal activity	Mobile network			
Country of incorporation	South Africa		Mexico	
Financial year-end*	31 December		31 December	
	31 May 2019 R'000	31 May 2018 R'000	31 May 2019 R'000	31 May 2018 R'000
Statement of financial position				
Non-current assets	19 865 013	21 533 877	38 293	54 122
Current assets	6 249 195	5 452 624	258 835	223 191
Cash and cash equivalents	681 938	52 994	97 014	113 209
Other current assets	5 567 257	5 399 630	161 821	109 982
	26 114 208	26 986 501	297 128	277 313
Total equity	2 674 170	10 617 066	16 883	59 394
Non-current liabilities	5 415 378	8 264 676	2 412	3 206
Current liabilities	18 024 660	8 104 759	277 833	214 713
Trade and other payables	7 564 596	5 991 793	277 833	213 228
Other current liabilities	10 460 064	2 112 966	—	1 485
	26 114 208	26 986 501	297 128	277 313
Effective percentage held	45	45	47.56	47.56
Net assets	2 674 170	10 617 066	16 883	59 394
Company net assets	(4 625 760)	3 294 078	10 683	51 149
Carrying value of purchase price allocations net of deferred taxation	7 299 930	7 322 988	6 200	8 245
Interest in associate and joint ventures	1 203 376	4 777 680	8 030	28 248
Goodwill	1 317 776	1 317 779	128 430	108 553
Impairment	(2 521 152)	—	—	—
Losses not guaranteed	—	—	—	—
Balance at the end of the year	—	6 095 459	136 460	136 801

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%.

* Where the financial year differs from the Group's year-end of 31 May, special purpose accounts are prepared to coincide with the Group's reporting period.

Associate Oxygen Services Private Limited		Associate Oxygen Online Services Private Limited		Joint venture 2DFine Group ¹	
Airtime and payment solutions provider		Online payment solutions provider		Investment holding company	
India		India		Mauritius	
31 March		31 March		31 May	
31 May 2019 R'000	31 May 2018 R'000	31 May 2019 R'000	31 May 2018 R'000	31 May 2019 R'000	31 May 2018 R'000
591 159	330 963	23 033	42 723	173 183	148 778
237 566	485 278	6 699	15 931	3 282	245
—	—	296	892	686	199
237 566	485 278	6 403	15 039	2 596	46
828 725	816 241	29 732	58 654	176 465	149 023
(87 607)	96 754	(57 421)	(284 047)	(53 819)	(111 525)
120 636	96 705	35 168	110 000	—	—
795 696	622 782	51 985	232 702	230 284	260 548
468 912	325 734	51 985	232 499	2 330	1 224
326 784	297 048	—	203	227 954	259 324
828 725	816 241	29 732	58 655	176 465	149 023
58.85	58.85	58.82	58.16	50	50
(87 607)	96 754	(57 421)	(284 047)	(53 819)	(111 525)
(96 056)	88 674	(57 421)	(284 047)	(53 819)	(111 525)
8 449 ²	8 080 ²	—	—	—	—
(55 093)	53 554	(33 777)	(165 202)	(26 910)	(55 762)
173 505	153 634	—	—	—	—
(118 412)	—	—	—	—	—
—	—	33 777	165 202	26 910	—
—	207 188	—	—	—	(55 762)

Notes to the Group annual financial statements continued

For the year ended 31 May 2019

2. GROUP COMPOSITION continued

2.1 Investments in and loans to associates and joint ventures continued

Company	Associate		Joint venture	
	Cell C Limited		Blue Label Mexico S.A. de C.V.	
Principal activity	Mobile network		Distributor of terminals to vend e-tokens of value	
Country of incorporation	South Africa		Mexico	
Financial year*	1 June 2018 to 31 May 2019	2 August 2017 to 31 May 2018	1 June 2018 to 31 May 2019	1 June 2017 to 31 May 2018
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
Statement of comprehensive income for the year ended				
Revenue	15 404 539	13 127 977	3 641 314	4 010 909
Operating profit before depreciation, amortisation and impairment charges	1 705 009	1 962 920	(23 044)	(485)
Depreciation, amortisation and impairment	(3 950 698)	(1 692 649)	(33 837)	(48 800)
Finance costs	(1 668 468)	(934 469)	—	—
Finance income	61 192	41 144	5 628	3 397
Net (loss)/profit before taxation	(3 852 965)	(623 054)	(51 253)	(45 888)
Taxation	(4 168 134)	1 873 204	590	(159)
Net (loss)/profit after taxation	(8 021 099)	1 250 150	(50 663)	(46 047)
Other comprehensive income/(loss)	—	—	8 491	(7 119)
Losses not guaranteed	—	—	—	—
Total comprehensive (loss)/income	(8 021 099)	1 250 150	(42 172)	(53 166)
Effective percentage held	45	45	47.56	47.56
Share of total comprehensive income	(3 609 495)	562 568	(20 057)	(25 286)

¹ 2DFine Group consists of 2DFine Holdings Mauritius and 2DFine Investments Mauritius

* Where the financial year differs from the Group's year-end of 31 May 2018, special purpose accounts are prepared to coincide with the Group's reporting period.

Associate Oxygen Services Private Limited		Associate Oxygen Online Services Private Limited		Joint venture 2DFine Group ¹	
Airtime and payment solutions provider India		Online payment solutions provider India		Investment holding company Mauritius	
1 June 2018 to 31 May 2019	1 June 2017 to 31 May 2018	1 June 2018 to 31 May 2019	1 June 2017 to 31 May 2018	1 June 2018 to 31 May 2019	1 June 2017 to 31 May 2018
2019 R'000	2018 R'000	2019 R'000	2018 R'000	2019 R'000	2018 R'000
1 066 278	1 588 396	1 798	796 576	—	—
(145 815)	26 087	(38 093)	(18 622)	79 833	(1 952)
(17 064)	(23 406)	(19 403)	(35 135)	—	—
(32 480)	(25 485)	(22 531)	(31 891)	(7 011)	(21 258)
6 477	6 008	—	—	44	3
(188 882)	(16 796)	(80 027)	(85 648)	72 866	(23 207)
1 121	1 105	—	—	—	—
(187 761)	(15 691)	(80 027)	(85 648)	72 866	(23 207)
3 542	7 022	—	10 333	(15 609)	4 825
—	—	80 027	53 993	—	—
(184 219)	(8 669)	—	(21 322)	57 257	(18 382)
58.85	58.85	58.82	58.16	50	50
(108 639)	(3 910)	—	(12 401)	28 629	(9 191)

Notes to the Group annual financial statements continued

For the year ended 31 May 2019

2. GROUP COMPOSITION continued

2.1 Investments in and loans to associates and joint ventures continued

The Group's interests in its other associates and joint ventures, which are unlisted, are as follows:

	Non-current assets R'000	Current assets R'000	Non-current liabilities R'000	Current liabilities R'000	Revenues R'000	Net profit/ (loss) R'000	Total comprehensive profit/ (loss) R'000	Carrying value of investment R'000
2019								
Associates	23 002	246 667	—	127 630	237 957	(2 131)	1 965	34 959
Joint ventures	19 038	88 631	27 125	61 418	196 008	44 344	45 858	47 423
2018								
Associates	157 486	279 344	1 914	356 357	448 924	(21 915)	(22 609)	87 975
Joint ventures	12 692	126 737	26 402	107 758	122 195	8 248	7 713	78 070

Impairment of associates and joint ventures

The following investments in associates and joint ventures were tested for impairment in line with IAS 36 due to there being impairment indicators:

- ▶ Cell C Limited
- ▶ Oxigen Services India
- ▶ Oxigen Online
- ▶ 2DFine Holdings Mauritius
- ▶ SupaPesa SA Proprietary Limited (SupaPesa SA)
- ▶ SupaPesa Africa Limited (SupaPesa Africa)
- ▶ Blue Label Mexico S.A de C.V. (Blue Label Mexico)

The result was that all of the above, excluding Blue Label Mexico, required an impairment charge to be recognised in the income statement. These impairments are included in impairments of associates and joint ventures.

This impairment 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 of Cell C Limited, SupaPesa and Blue Label Mexico are as follows:

	2019		2018	
	Terminal growth rate %	Discount rate %	Terminal growth rate %	Discount rate %
Cell C Limited	5.0	16.6	—	—
SupaPesa	3.0	18.1	4.0	19.5
Blue Label Mexico S.A. de C.V.	3.5	20.6	3.5	20.3

2. GROUP COMPOSITION *continued*

2.1 Investments in and loans to associates and joint ventures *continued*

The discount rates used are pre-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 discount rates used for the prior year were adjusted to reflect the Group's target debt to equity ratio. This did not give rise to any impairments in the prior period.

A partial impairment of R30 million was recognised against the investment in SupaPesa in the current financial year due to a decline in revenue, primarily attributable to legislative changes and loss in clientele.

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 impairment that would have to be recognised.

The Group has concluded that no impairment of its investment in Blue Label Mexico is required, in spite of it incurring losses in the current year. In order to mitigate such losses incurred, various initiatives were implemented in the last quarter which resulted in positive improvements to its financial performance. These initiatives included a reduction in staff complement, increases in cash collection and daily rental fees, the closure of unprofitable retail stores, the outsourcing of certain sales functions on a variable cost basis, the enhancement of its technology platform and the increase in the distribution of starter packs generating monthly compounded annuity income. Bill payments, credit and debit card acquiring and food vouchers are increasing on a monthly basis.

These initiatives will perpetuate in the year ahead, resulting in an expected turnaround to sustainable profitability.

Significant impairment of associates

Impairment of Cell C

On 2 August 2017, Blue Label, through its wholly owned subsidiary, The Prepaid Company, acquired 45% of the issued share capital of Cell C for a purchase consideration of R5.5 billion.

For the year ended 31 May 2019, management appointed an independent third-party valuation specialist to determine the value-in-use based on cash flow projections incorporated in the five-year Cell C business plan. They applied assumptions relating to the business, the industry and economic growth. Cash flows beyond this point were then extrapolated, applying terminal growth rates that did not exceed the expected long-term economic growth rate.

TPC's share of the value-in-use as at 30 November 2018 amounted to R6.04 billion. The valuation declined to a nil value at 31 May 2019. This was primarily attributable to:

- (a) A significant downward revision of the mobile subscriber base. The valuation at November 2018 was based on the assumption the CAGR forecast would average 9.3% per annum over a five-year period. In May 2019 the CAGR forecast was revised to an average of 4.6% per annum. This resulted in an originally expected 23.4 million subscribers after five years declining to a revised expectation of R17.9 million.
 - ▶ Cell C previously anticipated gaining approximately 6% additional market share by accessing new territories. Instead, Cell C's market share declined by approximately 2% from 16% at November 2018 to 14% at May 2019. This was in line with re-evaluating the inactive subscriber base and a loss of customers to competitors.
 - ▶ A deteriorating South African economy since November 2018, with an initial GDP forecast of 1.9% for the calendar year ended 2019 to a revised forecasted contraction of 0.2%. Accordingly, the forecast GDP was adjusted downwards each year for the following four years. In addition, Business Monitor Intelligence revised their mobile subscriber growth in April 2019 from a CAGR of 2.2% for the period FY18 to FY23 to 1.8%.
 - ▶ Year to date trading being below budget.
- (b) A substantial decline in forecast other revenue. This is largely due to a significant decline in equipment, Mobile Virtual Network Operator and Business Service Provider revenues over the five-year period in comparison to the initial forecast. Cell C had previously forecast gaining market share from its competitors. This did not materialise.
- (c) Lower taxation benefit relating to depreciation as a result of a revised forecasted reduction in capital expenditure.

Notes to the Group annual financial statements continued

For the year ended 31 May 2019

2. GROUP COMPOSITION continued

2.1 Investments in and loans to associates and joint ventures continued

Significant impairment of associates continued

Impairment of Cell C continued

In determining the revised valuation, cognisance was taken into account of positive cash flow generation from:

- (a) A decline in forecast direct expenditure on handset, SIM costs, ongoing commissions and discounts due to lower subscriber growth.
- (b) A reduction in forecast payroll costs.
- (c) A decline in capital expenditure due to cash flow constraints and lower subscriber base forecast.
- (d) A decrease in cash lease payments as a result of less network towers required due to the lower forecast of the subscriber base.

The impact of the transactions in progress relating to a national roaming agreement and the recapitalisation of Cell C were not in effect as at 31 May 2019 and as such have not been accounted for in the valuation at that date.

Cell C concluded the national roaming agreement on 7 August 2019. This agreement is anticipated to positively impact the cost base and future cash flows on the successful implementation of this transaction. Furthermore, the debt within Cell C will require a capital restructure. These ongoing matters cast significant doubt over Cell C's ability to continue as a going concern should they not materialise.

For purposes of the Group's annual financial statements, Cell C has been accounted for using the going concern assumption. The Group's share of Cell C's losses has been recognised in "equity losses through the share of (losses)/gains from associates and joint ventures" in the Group income statement. An impairment assessment was performed on the Group's investment in Cell C which resulted in an impairment being recognised. This is included in the "impairments on associates and joint venture" in the Group income statement. The result of this impairment is that the investment in Cell C is now carried at a nil valuation as at 31 May 2019.

The Group's remaining exposure to Cell C is as follows:

	2019 R'000	2018 R'000
Investment in associate	—	6 095 459
Trade receivables*	1 352 718	1 028 184
Loans receivable	—	1 029 626
Financial assets at fair value through profit or loss – bond notes	—	167 519
Trade payables	(1 212 392)	(1 573 472)
Financial liabilities at fair value through profit or loss	(301 716)	(45 360)

* Prior year amount has been adjusted as advances to customers are not regarded as advances to Cell C. They are advances to Cell C's end user. See note 3.5.3.

Financial guarantee in respect of Cell C's facility

On 2 August 2018, Cell C procured R1.4 billion of funding from a consortium of financial institutions for a tenure of 12 months, secured by airtime to the value of R1.75 billion. In the event of default, TPC is required to purchase such inventory from the consortium on a piecemeal basis over a specified period that has been agreed upon. These purchases would be made in lieu of purchases that would have been made from Cell C within that period.

As at 31 May 2019, the above funding declined from R1.4 billion to R1.25 billion as a result of BLT purchasing from the security airtime. At this stage, the financial institutions have agreed to extend the repayment date to 30 November 2019. If Cell C is unable to meet this commitment by that date, and no further extension is granted, BLT will be required to purchase R100 millions of security airtime in November 2019 and R300 million per month in December 2019, January 2020 and February 2020 respectively.

It is the intention of TPC to accelerate payments to the banking consortium in order to distribute the vault stock in full by January 2020 if there is risk/indication that Cell C will not be able to meet its obligations to the banking consortium by 30 November 2019.

The fair value of the financial guarantee issued in respect of Cell C's facility was valued to be insignificant taking into account the inventory held as collateral.

2. GROUP COMPOSITION continued

2.1 Investments in and loans to associates and joint ventures continued

Significant impairment of associates continued

Impairment of Cell C continued

Management has performed detailed assessments considering seasonality of trading and has determined that, based on current inventory holdings and anticipated sales cycles, should circumstances dictate the need to purchase the abovementioned inventory from the consortium, acceleration of such payments could well result in the debt being expunged by mid-January through its trading capabilities in the ordinary course of business at normal operating margins.

Critical accounting judgements and assumptions

Financial guarantee

As explained above under the heading “financial guarantee in respect of Cell C’s facility”, Cell C procured R1.4 billion of funding and utilised a portion of this funding to repay the R1.029 billion loan. Since the Group was a party to this new funding agreement, the Group considered whether it met the derecognition requirements of IFRS 9 for the loan receivable from Cell C. Specifically, the Group considered whether the loan receivable was extinguished and replaced with a new financial instrument, or whether this represented the continuation of the Group’s loan receivable from Cell C. The Group applied its judgement, and concluded that the R1.4 billion of funding represented a new financial instrument and therefore derecognised the loan receivable from Cell C. The qualitative factors that the Group considered in making this judgement included the fact that the original term of the loan receivable had come to an end and the new funding was for a different period of time compared to the initial term, an increase in the amount of the borrowing, a change in the interest rate from variable to fixed and changes to the repayment schedule from a bullet repayment schedule to an amortising repayment schedule.

Management is of the view that the purchasing of such inventory will not result in an onerous contract as this inventory is capable of being realised in the ordinary course of business without any negative impact being incurred by TPC.

Impairment of Oxygen Services India and Oxygen Online

Oxygen Services India and Oxygen Online are tested for impairment by comparing the recoverable amount against the carrying value of these investments. The recoverable amount is the higher of fair value less cost of disposal and the value-in-use. For Oxygen Services India and Oxygen Online the fair value less cost of disposal is higher than the value in use given the uncertainties around the future cash flow projections due to lack of funding. In order to calculate the fair values 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).

For Oxygen Services India and Oxygen Online, the fair value less cost of disposal is calculated by utilising relevant information generated by similar market transactions that have been concluded by comparable businesses. The fair value is based on a multiple applied to gross revenue, based on the same principles adopted by similar business to that of the Oxygen Services group, that was recently disposed of. This market approach provides the Group with more reliable evidence to support the valuation. The revenue multiple of 3.6 (2018: 4.3) was applied in determining the fair value. The assumptions and inputs used in calculating the fair value less cost to sell are regarded as level 3 fair value estimates.

The fair value of the 2DFine Group is based on its share of the fair value of Oxygen Services India and Oxygen Online less the liabilities of the 2DFine Group.

The corporate transaction, referred to in the 30 November 2018 interim results, did not materialise, and the resultant lack of funding necessitated BLT to impair its full investment of R118 million in the Oxygen Group. The full value of loans to Oxygen Services India of R30 million and 2DFine Holdings Mauritius of R101 million, net of a surety asset raised, were impaired. In addition, the Group has accounted for a R103 million liability relating to financial guarantee contracts.

Although alternative negotiations are in progress with other potential investors, until such time as a transaction is completed, the lack of cash resources will inhibit its propensity for growth.

The recoverable amount was calculated to be Rnil. The following were the key inputs in determining the recoverable amount:

- ▶ Uncertainty of future funding
- ▶ Adverse trading conditions
- ▶ Discontinuation of certain revenue streams.

Notes to the Group annual financial statements continued

For the year ended 31 May 2019

2. GROUP COMPOSITION continued

2.1 Investments in and loans to associates and joint ventures continued

Shares in associates converted to subsidiary in the current year

		Date disposed	Effective percentage
WiConnect Proprietary Limited (previously called Lornanox Proprietary Limited)	Associate	31 July 2018	40%

On 31 July 2018, the Group acquired the remaining 60% in WiConnect Proprietary Limited (previously called Lornanox Proprietary Limited) for R5 million.

Shares in associates and joint ventures acquired during the prior year

		Date acquired	Effective percentage
Cell C Limited	Associate	2 August 2017	45%
3G Proprietary Limited	Associate	2 August 2017	47.37%
iCrypto Inc.	Associate	31 March 2018	14.29%

On 2 August 2017, Blue Label, through its wholly owned subsidiary, TPC, acquired 45% of the issued share capital of 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. The proceeds from this share issue together with existing cash resources was used to pay the purchase consideration of R5.5 billion.

On the same date, TPC 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 R895 million. This has been accounted for as an associate from this date until 6 December 2017. Subsequently, the remaining 52.63% of the issued share capital was acquired for a further R963 million. From 6 December 2017, this investment is accounted for as a subsidiary. Refer to note 2.4 for further details.

2. GROUP COMPOSITION *continued*

2.1 Investments in and loans to associates and joint ventures *continued*

Of the initial purchase of 47.37%, 16 666 666 ordinary shares were issued to the vendors at R16.97 per share, equating to R283 million. The balance of R612 million plus accrued interest was paid at the end of February 2018.

iCrypto Inc. was purchased on 31 March 2018 for R11.7 million. Significant influence is demonstrated by the Company as a result of representation on the Board of Directors. The Group has the option to acquire a further 10.71% for USD1 million. This option expires on 28 February 2020. This option has been accounted for as a financial asset at fair value through profit and loss in the statement of financial position, with movements in the fair value being accounted for in the statement of comprehensive income. Management has assessed that there were no significant movements between the option fair value as at the acquisition date and 31 May 2019.

Shares in associates converted to subsidiary in the prior year

		Date disposed	Effective percentage
3G Proprietary Limited	Associate	6 December 2017	47.37%

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 (prorate to the respective parties' shareholding in BLM) of any liability incurred by BLM in terms of its trade agreement with Telcel. 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 2019

2. GROUP COMPOSITION continued

2.2 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		Airvantage Proprietary Limited	
Principal place of business	RSA		RSA	
Segment	Africa Distribution		Africa Distribution	
NCI %	2019 40 R'000	2018 40 R'000	2019 40 R'000	2018 40 R'000
Non-current assets	14 805	14 807	171 566	197 419
Current assets	76 305	67 371	85 613	49 517
Total assets	91 110	82 178	257 179	246 936
Capital and reserves	86 736	74 718	198 852	177 406
Non-current liabilities	527	1 084	45 810	52 050
Current liabilities	3 847	6 376	12 517	17 480
Total equity and liabilities	91 110	82 178	257 179	246 936
Accumulated NCI⁴	34 694	29 888	79 541	70 962
Summarised statement of comprehensive income for the year ended 31 May				
Revenue	101 316	93 998	88 629	36 929
Total comprehensive income/(loss) for the year	27 657	27 417	21 582	6 150
Comprehensive income/(loss) allocated to NCI	11 063	10 967	8 633	2 460
Summarised cash flows for the year ended 31 May				
Cash flows from operating activities	39 821	29 354	36 524	(8 329)
Cash flows to investing activities	(26 907)	(19 767)	(7 910)	(2 214)
Cash flows to financing activities	(15 947)	(15 315)	(11 159)	(1 338)
Net (decrease)/increase in cash and cash equivalents	(3 033)	(5 728)	17 455	(11 881)
Dividends paid to NCI	6 000	6 000	—	—

¹ The TJ Group consists of Transaction Junction Proprietary Limited and Transaction Junction (Namibia) Proprietary Limited.

² Glozell Distribution Proprietary Limited was acquired on 30 June 2018.

³ AV Technology Limited was acquired on 1 August 2018.

⁴ Accumulated NCI excludes the share-based payment reserve adjustments because the awards are treated as cash-settled in the separate entities' financial statements.

Glozell Distribution Proprietary Limited ²	Reware Proprietary Limited		AV Technology Limited ³	Viamedia Proprietary Limited	
RSA	RSA		Mauritius	RSA	
Africa Distribution	Africa Distribution		International	Mobile	
2019 52 R'000	2019 49.6 R'000	2018 49.6 R'000	2019 40 R'000	2019 25 R'000	2018 25 R'000
64 513	7 255	3 785	70 221	80 716	106 128
125 170	8 215	49 686	32 922	64 598	96 753
189 683	15 470	53 471	103 143	145 314	202 881
(84 109)	(32 729)	(4 953)	82 900	119 126	169 704
128 691	—	—	17 818	13 307	15 629
145 101	48 199	58 424	2 425	12 881	17 548
189 683	15 470	53 471	103 143	145 314	202 881
(43 737)	(16 229)	(2 456)	33 160	29 782	42 426
3 623 772	47 066	82 250	35 013	172 118	208 754
10 435	(29 774)	(5 432)	24 751	767	32 099
5 426	(14 764)	(2 694)	9 900	192	8 025
20 806	(5 036)	(9 535)	(57 033)	27 487	34 953
(8 324)	68	(248)	(60)	12 435	(31 217)
(11 267)	6 557	9 067	—	(50 000)	(50 000)
1 215	1 589	(716)	(57 093)	(10 078)	(46 264)
—	—	—	—	12 500	12 500

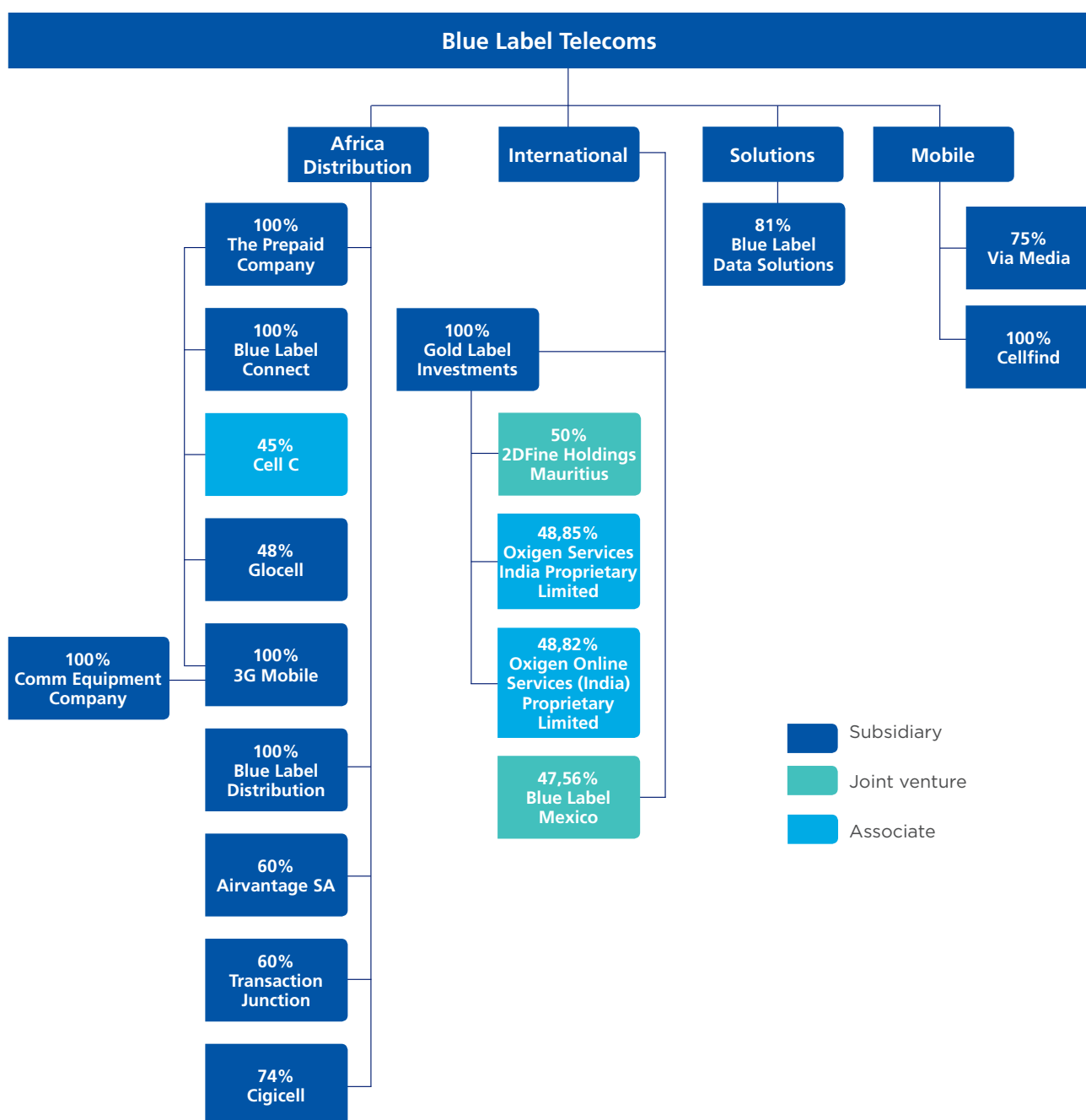
Notes to the Group annual financial statements continued

For the year ended 31 May 2019

2. GROUP COMPOSITION continued

2.3 Interest in subsidiaries, associates and joint ventures

Blue Label Telecoms Limited conducts its operations through various wholly owned subsidiaries, associates and joint ventures, the principal activities of the Group are conducted through the following significant entities to the Group:



A full list of the subsidiaries, associates and joint ventures of the Group is available, upon request, at the registered offices of the Group.

2. GROUP COMPOSITION continued

2.4 Acquisition of subsidiaries

	Glocell Distribution Proprietary Limited R'000	AV Technology Limited R'000	WiConnect Proprietary Limited R'000
	Distributor of airtime, starter packs and mobile phones through its retail outlets and to wholesale customers in South Africa, including postpaid and prepaid contracts	Owner of system that offers Mobile Network Operators the ability to advance airtime, data and mobile money to subscribers in Africa	Owner of retail stores trading in cellular handsets, tablets and related accessories, as well as SIM cards, postpaid and prepaid contracts
Date acquired	30 June 2018	1 August 2018	31 July 2018
% acquired	48%	60%	100%
At 31 May 2019			
Assets	171 068	33 316	223 397
Liabilities	(268 580)	(2 425)	(279 984)
Revenue since acquisition	3 623 772	35 013	200 359
Profit after tax since acquisition	13 444	27 215	12 766

The fair value of the net assets approximated the assets acquired on acquisition date.

	Glocell Distribution Proprietary Limited R'000	AV Technology Limited R'000	WiConnect Proprietary Limited R'000	Total R'000
Cash and cash equivalents	5 978	65 442	10 605	82 025
Property, plant and equipment	5 733	—	39 251	44 984
Intangible assets	52 364	78 059	—	130 423
Receivables	37 023	10 039	29 659	76 721
Inventories	19 754	—	34 255	54 009
Borrowings	—	—	(104 529)	(104 529)
Deferred tax	(6 300)	(21 733)	6 880	(21 153)
Payables	(84 097)	(73 658)	(56 709)	(214 464)
Financial guarantee contract	(125 000)	—	—	(125 000)
Fair value of subsidiaries acquired	(94 545)	58 149	(40 588)	(76 984)
Non-controlling interests	49 163	(23 260)	—	25 903
Fair value of net (liabilities)/assets acquired	(45 382)	34 889	(40 588)	(51 081)
Goodwill	218 780	49 298	45 588	313 666
Total purchase consideration	173 398	84 187	5 000	262 585
Receivable balances capitalised as consideration*	(173 398)	—	—	(173 398)
Settled in cash	—	84 187	5 000	89 187
Less: Cash and cash equivalents in subsidiary	(5 978)	(65 442)	(10 605)	(82 025)
Cash flow on acquisition	(5 978)	18 745	(5 605)	7 162

* Of the balance capitalised, R112.3 million was included in trade receivables and R58.1 million in loans receivable at 31 May 2018.

Notes to the Group annual financial statements continued

For the year ended 31 May 2019

2. GROUP COMPOSITION continued

2.4 Acquisition of subsidiaries continued

Had the acquisition of the subsidiaries taken place at the beginning of the financial year, it would have contributed to revenue and net profit after tax as follows:

	Glocell Distribution Proprietary Limited R'000	AV Technology Limited R'000	WiConnect Proprietary Limited R'000	Total R'000
Revenue	3 847 391	5 101 713	249 958	9 199 062
Net profit/(loss) after tax	17 460	3 483 979	(2 781)	3 498 658

Glocell Distribution Proprietary Limited (Glocell) was purchased with the objective of affording the Group access to new channels for the supply and distribution of airtime, mobile devices and contracts.

Management has applied its judgement in concluding that the Prepaid Company Proprietary Limited (TPC), a wholly owned subsidiary of Blue Label Telecoms Limited, has control of Glocell due to the fact that TPC controls all distributions made by Glocell to its shareholders, the application of all free cash, the incurral of any debt by Glocell other than in the ordinary course of its business, the sale of any of Glocell's assets and any loans granted by Glocell.

In most business acquisitions, there is a part of the cost that is not capable of being attributed in accounting terms to identifiable assets and liabilities acquired and is therefore recognised as goodwill. In the case of the acquisition of Glocell, this goodwill is underpinned by a number of elements, which individually cannot be quantified. Most significant among these is the opportunity that the distribution network affords the Group.

AV Technology Limited (AV Technology) was purchased with the objective of affording the Group the ability to advance airtime, data and mobile money services to mobile network subscribers in Africa.

In most business acquisitions, there is a part of the cost that is not capable of being attributed in accounting terms to identifiable assets and liabilities acquired and is therefore recognised as goodwill. In the case of the acquisition of AV Technology, this goodwill is underpinned by a number of elements, which individually cannot be quantified. Most significant among these is the opportunity that the utilisation of Prepaid Airtime Advance System, in Africa, affords the Group.

WiConnect Proprietary Limited (WiConnect) was purchased with the objective of affording the Group access to new channels for the supply and distribution of airtime, mobile devices and contracts.

In most business acquisitions, there is a part of the cost that is not capable of being attributed in accounting terms to identifiable assets and liabilities acquired and is therefore recognised as goodwill. In the case of the acquisition of WiConnect, this goodwill is underpinned by a number of elements, which individually cannot be quantified. Most significant among these is the opportunity that the distribution network affords the Group.

The non-controlling interests recognised as part of these acquisitions have been measured at the non-controlling interests' proportionate share of the identifiable net assets as at the acquisition date.

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Financial instruments carried on the statement of financial position include:

Financial assets

- ▶ Loans receivable
- ▶ Loans receivable from associates and joint ventures
- ▶ Trade and other receivables
- ▶ Advances to customers
- ▶ Cash and cash equivalents
- ▶ Financial assets at fair value through profit and loss

Financial liabilities

- ▶ Borrowings
- ▶ Trade and other payables
- ▶ Contingent purchase consideration
- ▶ Put option liability
- ▶ Financial guarantee contracts
- ▶ Financial liabilities at fair value through profit or loss (liquidity support and bond notes)

Financial assets and liabilities are recognised when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are classified as current if expected to be realised within 12 months of the statement of financial position date; if not, they are classified as non-current. Financial liabilities are classified as non-current if the Group has the right to defer settlement beyond 12 months of the statement of financial position date.

The Group classifies financial assets on initial recognition as measured at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit and loss (FVTPL) on the basis of the Group's business model for managing the financial asset and the cash flow characteristics of the financial asset.

Financial assets are classified as follows:

Measurement category	Criteria
Amortised cost	The asset is held within a business model with the objective to collect the contractual cash flows; and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.
Fair value through profit or loss	Debt investments that do not qualify for measurement at amortised cost or FVOCI (the Group does not currently hold any FVOCI instruments); and equity investments that are held-for-trading.

Financial assets are not reclassified unless the Group changes its business model for managing those financial assets. In rare circumstances where the Group does change its business model, reclassifications are done prospectively from the date that the Group changes its business model.

Financial liabilities are classified as measured at amortised cost except for those derivative liabilities that are measured at FVTPL.

Measurement on initial recognition

All financial assets (unless it is a trade receivable without a significant financing component) and liabilities are initially measured at fair value, including transaction costs, except for those classified as at fair value through profit or loss which are initially measured at fair value excluding transaction costs. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss. A trade receivable without a significant financing component is initially recognised at the transaction price.

Notes to the Group annual financial statements continued

For the year ended 31 May 2019

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

Subsequent measurement

Subsequent to initial recognition, financial instruments are measured as described below.

Category	Subsequent measurement
Financial assets	
Amortised cost	These financial assets are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Interest income, foreign exchange gains and losses and impairments are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss. Where the amortised cost using the effective interest method is materially lower than the fair value, this is separately disclosed.
Fair value through profit or loss	These financial assets are subsequently measured at fair value and changes therein (including any interest or dividend income) are recognised in profit or loss.
Financial liabilities	
Amortised cost	These financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expenses and foreign exchange gains and losses are recognised in profit or loss. Where the amortised cost using the effective interest method is materially more than the fair value, this is separately disclosed.
Fair value through profit or loss	These financial liabilities are subsequently measured at fair value with changes therein recognised in profit or loss.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when the obligations specified in the contracts are discharged, cancelled or expire. On derecognition of a financial asset/liability, any difference between the carrying amount extinguished and the consideration paid is recognised in profit or loss.

Impairment

Under IFRS 9 the Group calculates its allowance for credit losses as expected credit losses (ECLs) for financial assets measured at amortised cost. ECLs are a probability weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the original effective interest rate (EIR) of the financial asset.

To calculate ECLs the Group segments/Groups trade receivables by customer type, as disclosed in the trade and other receivables note (note 3.5.2). The Group applies the simplified approach to determine the ECL for trade and other receivables. This results in calculating lifetime expected credit losses for trade and other receivables. ECLs for trade and other receivables are calculated using a provision matrix. Refer to the credit risk note (note 3.1) for more detail about ECLs and how this is calculated.

ECLs for receivables other than trade receivables have been determined using the general approach in IFRS 9. Under the general approach, an entity calculates expected credit losses for loans and receivables at initial recognition by considering the consequences and probabilities of possible defaults only for the next 12 months, rather than the life of the asset. It continues to apply this method until a significant increase in credit risk has occurred, at which point the loss allowance is measured based on lifetime ECLs.

Financial risk management

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.

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *continued*

Classes of financial instruments

	2019 R'000	Restated 2018 R'000
Financial assets		
Trade and other receivables*	3 812 824	4 202 518
Cash and cash equivalents	1 385 596	947 888
Loans to associates and joint ventures (refer note 2.1)	26 260	1 202 305
Loans receivable	147 526	206 064
Advances to customers	1 617 097	1 595 010
Financial assets at fair value through profit and loss	204 739	168 144
	7 194 042	8 321 929
Financial liabilities		
Interest-bearing borrowings	3 200 408	2 970 938
Non-interest-bearing borrowings	35 876	170
Trade and other payables*	5 232 241	4 928 352
Put option liability	158 638	97 947
Contingent consideration	1 923	4 559
Financial guarantee contracts	243 492	—
Financial liabilities at fair value through profit and loss	301 716	45 360
Bank overdraft	7 843	—
	9 182 137	8 047 326
Net financial position	(1 988 095)	274 603

* Trade and other receivables and trade and other payables exclude non-financial instruments.

Reconciliation of financial assets and non-financial assets:

	2019			2018		
	Total R'000	Financial asset R'000	Non- financial asset R'000	Total R'000	Financial asset R'000	Non- financial asset R'000
Loans receivable	232 529	147 526	85 003	261 069	206 064	55 005
Trade and other receivables	4 257 266	3 812 824	444 442	4 315 727	4 202 518	113 209
Advances to customers	1 617 097	1 617 097	—	1 595 010	1 595 010	—
Cash and cash equivalents	1 385 596	1 385 596	—	947 888	947 888	—
Financial assets at fair value through profit and loss	204 739	204 739	—	168 144	168 144	—
Loans to associates and joint ventures	26 260	26 260	—	1 202 305	1 202 305	—
	7 723 487	7 194 042	529 445	8 490 143	8 321 929	168 214

Notes to the Group annual financial statements continued

For the year ended 31 May 2019

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

Reconciliation of financial liabilities and non-financial liabilities:

	2019			2018		
	Total R'000	Financial liability R'000	Non-financial liability R'000	Total R'000	Financial liability R'000	Non-financial liability R'000
Interest-bearing borrowings	3 200 408	3 200 408	—	2 970 938	2 970 938	—
Non-interest-bearing borrowings	35 876	35 876	—	170	170	—
Trade and other payables	5 369 463	5 232 241	137 222	4 986 239	4 928 352	57 887
Contingent consideration	1 923	1 923	—	4 559	4 559	—
Financial guarantee contracts	243 492	243 492	—	—	—	—
Bank overdraft	7 843	7 843	—	—	—	—
Put option liability	158 638	158 638	—	97 947	97 947	—
Financial liabilities at fair value through profit and loss	301 716	301 716	—	45 360	45 360	—
	9 319 359	9 182 137	137 222	8 105 213	8 047 326	57 887

3.1 Credit risk

Credit risk, or the risk of financial loss to the Group due to customers or counterparties not meeting their contractual obligations, is managed through the application of credit approvals, limits and monitoring procedures. The Group is exposed to credit risk on financial assets mainly in respect of those assets detailed in the table below. The carrying amounts of financial assets represent the maximum credit exposure, this exposure is considered without taking into account any collateral and financial guarantees, to be as follows:

	2019 R'000	Restated 2018 R'000
Financial assets		
Trade and other receivables	3 812 824	4 202 518
Cash and cash equivalents	1 385 596	947 888
Loans to associates and joint ventures	26 260	1 202 305*
Loans receivable	147 526	206 064
Advances to customers	1 617 097	1 595 010
	6 989 303	8 153 785

* As a result of the prior year error the Group has restated their comparative financial information. Refer to note 11 for details.

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

3.1 Credit risk continued

The table below discloses the credit quality of the financial assets (excluding trade receivables) of the Group for which external credit ratings are available. External credit ratings were based on the latest Moody's default ratings. The counterparties were categorised as follows:

Group 1: Financial institutions with a Moody's long term debt issuer rating of Baa3 or better, or cash on hand. ECL of 0%.

Group 2: Fully performing, with a Moody's rating of Baa3 or better.

Group 3: Fully performing with a Moody's rating of between Ba1 and Caa2.

Group 4: Counterparties who are considered to be in default and those that have a Moody's rating of Caa3 or lower.

	2019 R'000	2018 R'000
Counterparties with external credit rating		
Group 1	1 385 596	947 888
Group 2	—	—
Group 3	—	—
Group 4	—	—
Total	1 385 596	947 888

The table below discloses the credit quality of the financial assets (excluding trade receivables) of the Group for which no external credit rating is available. Equivalent credit ratings were based on the latest Moody's default ratings. Management defines default as when counterparties miss payments and future payments are either suspended or unlikely. The counterparties were categorised as follows:

Group 1: Fully performing counterparties who are highly collateralised, with no external credit ratings. ECL range of 0% to 0.75%.

Group 2: Fully performing counterparties, with a credit rating equivalent to a Moody's rating of B1 or better. ECL range of 0% to 3.3%.

Group 3: Fully performing counterparties, with a credit rating equivalent to a Moody's rating of between B2 and Caa2. ECL range of 3.3% to 15.49%.

Group 4: Counterparties who are considered to be in default and have an equivalent Moody's rating of Caa3 or lower. ECL of 15.49% to 100%.

	2019 R'000	2018 R'000
Counterparties without external credit rating		
Group 1	1 617 097	1 595 010
Group 2	102 350	1 177 712
Group 3	71 075	207 096
Group 4	361	23 561
Total	1 790 883	3 003 379

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 R418.6 million (2018: R415 million). A financial guarantee contract liability of R243.5 million has been raised in the Group's statement of financial position at year-end. Refer to note 3.6.3.

(i) Trade and other receivables

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. A large portion of the Group's revenues are generated in South Africa, with other notable operations in India as well as Mexico. There are no other significant geographical concentrations of credit risk. 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 receivables age analysis and follows up on long-outstanding receivables. Allowances for impairment are raised in accordance with Group policy which has been revised to be in line with the requirements of IFRS 9. The Group's customer base has been aggregated into groupings that represent, to a large degree, how the Group manages its receivables and also illustrates the spread of credit risk. Within these aggregated groupings, the Group's exposure to credit risk is made up of major retailers, wholesalers and cellular networks; the balance of the customer base is widely dispersed.

(ii) 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 Baa3 based on the latest Moody's local currency long-term issuer default ratings.

Notes to the Group annual financial statements continued

For the year ended 31 May 2019

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

3.1 Credit risk continued

(iii) Loans to associates and joint ventures

The Group has provided loans to associates and joint ventures of the Group to satisfy operational and other requirements. These associates and joint ventures are located in South Africa, India and Mauritius. The Group manages credit risk on this portfolio of loans by following strict protocols for the approval thereof, and where possible obtaining appropriate security and other collateral. Management regularly reviews these loans and uses an internal ratings-based system to track credit risk thereon. Allowances for impairment are raised in accordance with the general model in IFRS 9 to which Group policy has been aligned. During the year certain of these loans experienced a significant deterioration in credit quality and thus the Group has raised impairments against these loans. Refer to note 2.1.

The loss allowance as at 31 May 2019 for loans to associates and joint ventures is determined as follows:

	Gross R'000	Impairment R'000	Net R'000	Average ECL/ impairment ratio %
31 May 2019				
Loans advanced to counterparties without external ratings included in:				
Group 2	26 450	(190)	26 260	(0.72)
Group 4	268 892	(268 892)	—	(100.00)
	295 342	(269 082)	26 260	

(iv) Loans receivable

The Group has provided loans to third parties who are seen as product distributors, in order to expand our distribution channels. These loans have been extended on various terms depending on management's assessment of the business rationale for the provision thereof. The Group manages credit risk by following strict protocols for the approval and monitoring of these loans, and where possible obtaining appropriate security and other collateral. Management regularly reviews these loans and uses an internal ratings-based system to track credit risk thereon. Allowances for impairment are raised in accordance with the general model in IFRS 9 to which Group policy has been aligned.

The loss allowance as at 31 May 2019 for loans receivable is determined as follows:

	Gross R'000	Impairment R'000	Net R'000	Average ECL/ impairment ratio %
31 May 2019				
Loans advanced to counterparties without external ratings included in:				
Group 2	77 223	(1 134)	76 089	(1.47)
Group 3	73 577	(2 503)	71 074	(3.40)
Group 4	2 733	(2 370)	363	(86.72)
	153 533	(6 007)	147 526	

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *continued*

3.1 Credit risk *continued*

(v) Advances to customers

Advances to customers represent the activities of the Group's subsidiary, Comm Equipment Company Proprietary Limited, which provides financing for cellular handsets and other devices. This customer base is widely dispersed throughout South Africa and no significant concentrations of credit risk have been noted. The business model of this financing arrangement indirectly exposes the Group to the credit risk of Cell C Proprietary Limited. However management believes it has effectively mitigated this risk through the operational model utilised as well as the very high collateral requirements contractually in place, as detailed below:

- ▶ the Group has stringent requirements for the granting of credit to these customers;
- ▶ the Group has direct access to the customer cash flows received by Cell C in respect of the handsets and devices financed;
- ▶ the Group has direct access to the customer cash flows received by Cell C in respect of the customer subscriptions; and
- ▶ In the unlikely event of default, the Group has the right to sell the customer base.

The Group calculates an expected credit loss on this portfolio in accordance with the general model in IFRS 9 to which Group policy has been aligned. In light of the significant collateral arrangements in place, the expected credit loss on this portfolio is not significant and well within the Group's tolerances. Refer to note 3.5.3.

The loss allowance as at 31 May 2019 for advances to customers is determined as follows:

	Gross R'000	Impairment R'000	Net R'000	Average ECL/ impairment ratio %
31 May 2019				
Advances to customers without external ratings included in:				
Group 1	1 619 965	(2 868)	1 617 097	(0.18)
	1 619 965	(2 868)	1 617 097	

Expected credit losses

The Group has the following financial assets subject to the expected credit loss model:

- ▶ Trade and other receivables
- ▶ Cash and cash equivalents
- ▶ Loans to associates and joint ventures
- ▶ Loans receivable
- ▶ Advances to customers

Application of the ECL model had an immaterial impact on sundry receivables.

Included in loans to associates and joint ventures as well as loans receivable are amounts receivable to which the Group has applied the general impairment model. The Group has considered the financial performance, external debt and future cash flows of the related parties and based on these, determined the credit risk relating to these receivables. The general impairment model has been applied to advances to customers. The Group applies the simplified approach using a provision matrix to determine the ECL for trade and other receivables. This results in calculating lifetime expected credit losses for trade and other receivables.

Notes to the Group annual financial statements continued

For the year ended 31 May 2019

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

3.1 Credit risk continued

Expected credit losses continued

Provision matrix

ECLs are calculated by applying a loss ratio to the aged balance of trade receivables at each reporting date. The loss ratio is calculated according to the ageing/payment profile of sales by applying historic/proxy write-offs to the payment profile of the sales population. In instances where there was no evidence of historical write-offs, management used a proxy write off for similar receivables obtained from external credit rating agencies. Trade receivable balances have been grouped so that the ECL calculation is performed on groups of receivables with similar risk characteristics and ability to pay. Exposures are mainly segmented by customer type, i.e. banks, independent and informal retail customers, etc. This is done to allow for risk differentiation. Similarly, the sales population selected to determine the ageing/payment profile of the sales is representative of the entire population and in line with future payment expectations. The historic loss ratio is then adjusted for forward looking information to determine the ECL for the portfolio of trade receivables at the reporting period to the extent that there is a strong correlation between the forward looking information and the ECL. In most instances no material adjustments have been made due to the inclusion of forward looking information as the majority of trade receivables are settled within a relatively short period (under 60 days on average).

The Group used 36 to 48 months sales data to determine the payment profile of the sales. Where the Group has information about actual historical write-offs, actual write-offs have been used to determine a historic loss ratio. Alternatively, management has used a proxy write-off, based on management's best estimate including information obtained from external ratings agencies. The Group has considered quantitative forward looking information such as the core inflation rate. Qualitative assessments have also been performed, of which the impact was found to be immaterial.

Management considers trade receivables aged in excess of 90 days past due (where the excessive ageing is not caused by administrative delays that are within the control of the Group), and those handed over to the Group's attorneys for legal collection processes, to be in default and accordingly increase the allowance for impairment raised on these receivables. This policy is applied to all receivables other than receivables for starter packs and receivables from municipalities and private utilities where management has rebutted the presumption that a customer is in default when 90 days past due as a result of the inherent nature of the product/ transaction being undertaken which follows a business cycle in excess of 90 days. Receivables for starter packs are considered to be in default where no income has been earned from activation or ongoing revenue in the last three months and the receivable has aged in excess of the anticipated repayment cycle. Receivables from municipalities and private utilities are considered to be in default where the net exposure to the counterparty after deduction of the collateral held has aged in excess of 12 months, or where handed over to the Group's attorneys for legal collection purposes.

Trade receivables are written off when there is no reasonable expectation of recovery. This is assessed individually by each operation and includes for example where the trade receivables have been handed over for collection and remain outstanding or the debtor has entered bankruptcy. Other receivables and other financial assets are individually assessed by management based on each situation's unique facts and circumstances and are written off when management believes that there is no reasonable expectation of recovery.

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

3.1 Credit risk continued

Expected credit losses continued

The loss allowance as at 31 May 2019 for trade receivables and other receivables to which the provision matrix has been applied is determined as follows:

Ageing and impairment analysis

	Gross R'000	Impairment R'000	Net R'000	Average ECL/ impairment ratio %
31 May 2019				
Fully performing receivables				
Trade receivables arising on revenue from contracts with customers				
Banks	71 899	(2)	71 897	—
Independent and informal retail customers	733 768	(2 445)	731 323	(0.33)
Formal market retail customers	403 736	(9 476)	394 260	(2.35)
Customers in the petroleum sector	59 977	(3)	59 974	(0.01)
Receivables for starter packs	130 604	(233)	130 371	(0.18)
Cell C	26 199	(292)	25 907	(1.11)
Other cellular networks	95 935	(27)	95 908	(0.03)
Municipalities and private utilities	64 696	—	64 696	—
Associates, joint ventures and related parties	2 740	—	2 740	—
Trade receivables arising on financing transactions				
Cell C	1 325 303	(2 346)	1 322 957	(0.18)
Other	214 742	(2 419)	212 323	(1.13)
Sundry receivables	186 354	—	186 354	—
Past due receivables				
Trade receivables arising on revenue from contracts with customers				
<i>Banks</i>				
Past due by 1 to 30 days	3 524	(144)	3 380	(4.09)
Past due by 31 to 60 days	4 098	(132)	3 966	(3.22)
Past due by 61 to 90 days	1 404	(27)	1 377	(1.92)
Past due by more than 90 days	2 555	(1 273)	1 282	(49.82)
<i>Independents and informal retail customers</i>				
Past due by 1 to 30 days	62 190	(1 277)	60 913	(2.05)
Past due by 31 to 60 days	11 416	(1 701)	9 715	(14.90)
Past due by 61 to 90 days	8 243	(108)	8 135	(1.31)
Past due by more than 90 days	42 664	(41 195)	1 469	(96.56)
<i>Formal market retail customers</i>				
Past due by 1 to 30 days	92 191	(4 315)	87 876	(4.68)
Past due by 31 to 60 days	8 445	(110)	8 335	(1.30)
Past due by 61 to 90 days	14 324	(875)	13 449	(6.11)
Past due by more than 90 days	17 175	(16 522)	653	(96.20)
<i>Customers in the petroleum sector</i>				
Past due by 1 to 30 days	1 982	—	1 982	—
Past due by 31 to 60 days	305	(1)	304	(0.33)
Past due by 61 to 90 days	380	—	380	—
Past due by more than 90 days	5 086	(5 011)	75	(98.53)

Notes to the Group annual financial statements continued

For the year ended 31 May 2019

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

3.1 Credit risk continued

Expected credit losses continued

Ageing and impairment analysis continued

	Gross R'000	Impairment R'000	Net R'000	Average ECL/ impairment ratio %
<i>Receivables for starter packs</i>				
Past due by 1 to 30 days	81 918	(233)	81 685	(0.28)
Past due by 31 to 60 days	98	(14)	84	(14.29)
Past due by 61 to 90 days	6	(1)	5	(16.67)
Past due by more than 90 days	341	(341)	—	(100.00)
<i>Cell C</i>				
Past due by 1 to 30 days	1 194	(6)	1 188	(0.50)
Past due by 31 to 60 days	10	—	10	—
Past due by 61 to 90 days	—	—	—	—
Past due by more than 90 days	12	—	12	—
<i>Other cellular networks</i>				
Past due by 1 to 30 days	13 741	(2)	13 739	(0.01)
Past due by 31 to 60 days	512	(6)	506	(1.17)
Past due by 61 to 90 days	26	—	26	—
Past due by more than 90 days	159	—	159	—
<i>Municipalities and private utilities</i>				
Past due by 1 to 30 days	57 460	—	57 460	—
Past due by 31 to 60 days	37 036	—	37 036	—
Past due by 61 to 90 days	17 819	—	17 819	—
Past due by more than 90 days	75 550	(2 417)	73 133	(3.20)
<i>Associates, joint ventures and related parties</i>				
Past due by 1 to 30 days	620	—	620	—
Past due by 31 to 60 days	72	—	72	—
Past due by 61 to 90 days	—	—	—	—
Past due by more than 90 days	30 299	(3 030)	27 269	(10.00)
	3 908 808	(95 984)	3 812 824	

Performance of trade debtors under IAS 39 is assessed to be as follows:

	Gross R'000	Impairment R'000	Net R'000
31 May 2018			
Fully performing	5 335 596	(3 250)	5 332 346
Past due by 1 to 30 days	78 445	—	78 445
Past due by 31 to 60 days	44 550	(7 654)	36 896
Past due by 61 to 90 days	19 738	(2 006)	17 732
Past due by more than 90 days	83 822	(34 998)	48 824
	5 562 151	(47 908)	5 514 243

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

3.1 Credit risk continued

Expected credit losses continued

Ageing and impairment analysis continued

ECLs for receivables other than trade receivables have been determined using the general approach in IFRS 9.

	Trade receivables		Other financial assets	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
Provision for impairment of receivables				
Balance at the beginning of the year	47 908	19 020	141 850	—
Amounts restated through opening retained earnings	32 876	—	48 404	—
Acquisition of subsidiary	—	10 173	—	—
Allowances made during the year	42 033	23 808	163 733	141 850
Amounts utilised and reversal of unutilised amounts	(26 833)	(5 093)	(76 033)	—
At 31 May	95 984	47 908	277 954	141 850

Other financial assets on which ECLs are applied include loans to associates and joint ventures, loans receivable and advances to customers. Not included in the above table are the ECLs applied within associates, and joint ventures accounted for in investments in associates and joint ventures.

3.2 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due, both under normal and stressed circumstances.

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.

Notes to the Group annual financial statements continued

For the year ended 31 May 2019

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

3.2 Liquidity risk continued

Maturity of financial liabilities

The table below analyses the undiscounted cash flows for 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.

	Note reference	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
2019						
Interest-bearing borrowings	3.6.2	18 553	1 706 571	1 722 693	2 877	—
Non-interest-bearing borrowings	3.6.2	—	21 924	13 952	—	—
Trade and other payables	3.6.1	3 354 792	1 860 145	—	17 304	—
Put option liability	3.7	—	158 638	—	—	—
Financial liability at fair value through profit and loss	3.7	—	301 716	—	—	—
Financial guarantee contracts	3.6.3	243 492*	1 250 000 ¹	—	—	—
Contingent consideration	3.6.1	1 923	—	—	—	—
Bank overdraft	3.5.4	7843	—	—	—	—
Total		3 626 603	5 298 994	1 736 645	20 181	—
2018						
Interest-bearing borrowings	3.6.2	715 831	923 199	163 497	1 555 238	—
Non-interest-bearing borrowings	3.6.2	174	—	—	—	—
Trade and other payables	3.6.1	3 357 549	1 673 571	96	—	—
Put option liability	3.6.1	—	108 203	—	—	—
Financial liability at fair value through profit and loss	3.7	—	302 318	251 932	—	—
Contingent consideration	3.6.1	—	4 744	—	—	—
Total		4 073 554	3 012 035	415 525	1 555 238	—

* Financial guarantee contracts represent 100% of the balance that would be due if the surety was called upon.

¹ As at 31 May 2019, this balance has not been recognised as a liability. Refer to note 3.6.3.

Trade and other payables exclude non-financial instruments, being VAT and certain amounts included within accruals and sundry creditors.

Liquidity support

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 USD36 million of the aforesaid USD80 million thus reducing The Prepaid Company's obligation in this regard to a maximum of USD44 million. As at 31 May 2019, the Group has contributed USD24 million to SPV2. The remaining amount due of USD20 million is included in financial liabilities at fair value through profit and loss.

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

3.2 Liquidity risk continued

Group facilities

The Group has access to the following facilities in order to meet its liquidity needs:

Facility	Borrower	Investec	Rand Merchant Bank	Value R'000	Interest rate	Interest period	Repayment date
Senior facility A	Comm Equipment Company Proprietary Limited	50%	50%	858 152	3-month JIBAR plus 3.85%	Quarterly	31 August 2020
Senior facility B	Comm Equipment Company Proprietary Limited	50%	50%	650 000	Prime plus 0.35%	Monthly	31 August 2020
Mezzanine facility	Comm Equipment Company Proprietary Limited	100%	—	410 532	Prime plus 1.5%	Monthly	31 August 2020
Facility A	The Prepaid Company Proprietary Limited	100%	—	1 500 000	Prime minus 0.5%	Monthly	30 September* 2019
Facility B	The Prepaid Company Proprietary Limited	100%	—	550 000	Prime	Monthly	30 September* 2019
				3 968 684			

* Subsequent to year-end the Group has renewed these facilities until 29 November 2019.

- The Group has a working capital loan facility with Investec Bank Limited of R2.050 billion (2018: R2.050 billion). Drawdowns were made during the year, and the utilised portion of the facility at year-end amounted to R1.512 billion (2018: R690 million).
- The following debt covenants are in place for the TPC facilities within Investec:
 - Facility A
 - Debt to EBITDA ratio must be less than 2.5 times
 - The sum of 70% of debtors and 80% of stock must exceed the utilised value of the facility
 - 90% of the cash deposits are to be held with Investec (on average for the month)
 - Facility B
 - Debt to EBITDA ratio must be less than 2.5 times
 - The facility commitment value must be less than 25% of BLT's 45% stake in Cell C
- 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 3.5.2 and 4.4.
- The Group has a financing facility with Rand Merchant Bank Limited and Investec Bank of R1.92 billion (2018: R1.92 billion). This facility is restricted for use by the 3G Mobile Group. Drawdowns were made during the year and the utilised portion of the facility at year-end amounted to R1.669 billion (2018: R1.514 billion).
- The Group is in the process of negotiating a renewal of Facility A.

Pledges, guarantees and sureties

- The shares in 3G Mobile and its subsidiaries have been pledged as security for the R1.92 billion Rand Merchant Bank Limited and Investec Bank facilities. Blue Label Telecoms and The Prepaid Company have issued guarantees for this facility. The guarantees are included in the sureties detailed above.
- The Company and a subsidiary company issued a cross-surety in respect of an overdraft facility in the amount of R19.85 million (2018: R19.85 million) in favour of FNB, a division of First National Bank Limited (FNB). This facility was unutilised as at 31 May 2018. In addition, the Company and four of its subsidiaries issued a cross-surety in the amount of R1.3 million (2018: R1.3 million) in respect of credit card facilities granted by FNB.
- Guarantees to the value of R936.8 million (2018: R614.4 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 portion of its facilities while amounts owing to suppliers are outstanding.
- A cash backed guarantee to the value of R48.2 million (2018: R37.8 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. A financial guarantee contract liability of R48.2 million has been raised in the Group's statement of financial position at year-end. Refer to note 3.6.3.

Notes to the Group annual financial statements continued

For the year ended 31 May 2019

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

3.3 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.

(i) 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 other than the instruments detailed in note 3.7 where the fair value risk of these instruments is detailed.

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.

Estimated change to profit or loss as a result of Increase/decrease in market interest rates	2019 R'000	2018 R'000
An increase or decrease in the market interest rates of 1% (100 basis points) would increase/decrease profit before tax by:	17 641	9 900

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.

(ii) Foreign currency risk

The Group is exposed to foreign currency risk from transactions and translations. 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.

In the current year the Group incurred a foreign exchange gain of R36.6 million (2018: R19.6 million loss) mainly as a result of the Group's USD exposure.

Foreign currency sensitivity analysis

The Group has used a sensitivity analysis technique that measures the estimated change to profit or loss of an instantaneous 10% strengthening or weakening in the rand against all other currencies, from the rate applicable at 31 May 2019, 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.

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

3.3 Market risk continued

(ii) Foreign currency risk continued

Foreign currency sensitivity analysis continued

Net exposure to foreign currencies Denominated: Functional currency	Net assets/ (liabilities) denomi- nated in foreign currency R'000	Change in exchange rate %	(Decrease)/increase in profit before tax	
			Weakening in functional currency R'000	Strengthen- ing in functional currency R'000
2019				
USD: ZAR	(73 607)	10	7 361	(7 361)
EUR: ZAR	9 334	10	(933)	933
BRL: ZAR	4 603	10	(460)	460
NAD: ZAR	21 767	10	(2 177)	2 177
MUR: ZAR	102 439	10	(10 244)	10 244
BWP: ZAR	36 434	10	(3 643)	3 643
ZMW: ZAR	(1 131)	10	113	(113)
	99 839		(9 983)	9 983
2018				
USD: ZAR	174 296	10	(17 430)	17 430
EUR: ZAR	27 109	10	(2 711)	2 711
NAD: ZAR	14 094	10	(1 409)	1 409
MUR: ZAR	51 806	10	(5 181)	5 181
BWP: ZAR	36 059	10	(3 606)	3 606
ZMW: ZAR	(1 213)	10	121	(121)
	302 151		(30 216)	30 216

3.4 Capital adequacy 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 2019

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

3.5 Financial assets

3.5.1 Loans receivable

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. For details related to the ECLs refer to note 3.1.

	2019 R'000	2018 R'000
Interest-free loans	94 929	146 097
Interest-free surety loans	85 003	55 005
Interest-bearing loans receivable	58 603	59 967
Less: Provision for impairment	(6 006)	—
	232 529	261 069
Less: Amounts included in current portion of loans receivable	(190 769)	(207 799)
	41 760	53 270

Surety loans relate to the personal sureties that B Levy and M Levy signed 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 16.95% of the shares in Oxigen Services India Private Limited (Oxigen Services) and 17.29% of the shares in Oxigen Online Services India Private Limited (Oxigen Online). In the current year this loan was impaired due to a decrease in the fair value of Oxigen Services and Oxigen Online resulting in the Group recognising a receivable on the potential surety claim.

All loans receivable are unsecured and repayable within five years. Interest-bearing loans bear interest at a range of between prime and prime plus 2%. The fair value of interest-free loans, which include loans to product distributors, approximates their carrying value. This has been corroborated through discounted cash flow calculations at the effective interest rate the lender would have been able to secure from a financing institution, using an expected payment timeframe.

3.5.2 Trade and other receivables

Trade receivables comprise receivables that are due from customers which arise from transactions for the sale of goods, rendering of services and leasing of equipment in the ordinary course of business. Trade receivables are primarily accounted for at amortised cost, in accordance with the accounting policies of the Group. Sundry receivables are accounted for at amortised cost in accordance with the accounting policies of the Group. For details related to the ECLs refer to note 3.1. Receivables for prepayments and VAT are stated at their nominal values.

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

3.5 Financial assets continued

3.5.2 Trade and other receivables continued

The following table provides an analysis of the Group's trade and other receivables, including an analysis of trade receivables by originating transaction type as well as by counterparty:

	Current		Non-current		Total	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000	2019 R'000	2018 R'000
Trade receivables arising on revenue from contracts with customers	2 182 409	2 966 845	—	17 218	2 182 409	2 984 063
Banks	83 480	80 495	—	—	83 480	80 495
Independent and informal retail customers	858 281	1 146 778	—	11 931	858 281	1 158 709
Formal market retail customers	535 871	544 447	—	5 287	535 871	549 734
Customers in the petroleum sector	67 730	56 339	—	—	67 730	56 339
Receivables for starter packs	212 967	274 750	—	—	212 967	274 750
Cell C	27 415	50 652	—	—	27 415	50 652
Other cellular networks	110 373	102 670	—	—	110 373	102 670
Municipalities and private utilities	252 561	641 356	—	—	252 561	641 356
Associates, joint ventures and related parties	33 731	69 358	—	—	33 731	69 358
Trade receivables arising on financing transactions	1 540 045	1 028 053	—	—	1 540 045	1 028 053
Cell C	1 325 303	1 028 053	—	—	1 325 303	1 028 053
Other	214 742	—	—	—	214 742	—
Less: Provision for impairment	(95 984)	(47 908)	—	—	(95 984)	(47 908)
Net trade receivables	3 626 470	3 946 990	—	17 218	3 626 470	3 964 208
Net sundry debtors	189 647	149 163	—	5 539	189 647	154 702
Prepayments	315 547	123 403	—	—	315 547	123 403
VAT	125 602	73 414	—	—	125 602	73 414
	4 257 266	4 292 970	—	22 757	4 257 266	4 315 727

Amounts due from customers arising from the provision of financing and not the sale of a product of service have been reclassified to advances to customers as it more appropriately reflects that the end customer. Refer to note 3.5.3.

Included in trade receivables are debtors of R208 million (2018: R271 million) which have a cycle period in excess of 12 months but are considered current.

The Group held guarantees to the value of R30 million in the prior year as security over specific customers included in trade receivables. The Group has further insurance cover to the value of R10 million (2018: R245 million) over trade receivable balances with certain material customers. All insured values exclude VAT.

There is a cession of trade receivables (including intergroup balances) of R3.563 billion (2018: R3.210 billion) in favour of Investec Bank Limited as security for facilities referred to in note 3.2.

Notes to the Group annual financial statements continued

For the year ended 31 May 2019

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

3.5 Financial assets continued

3.5.3 Advances to customers

Advances to customers comprise receivables arising on financing transactions where, in substance, the nature of the business activities undertaken by certain subsidiaries of the Group is to engage in the provision of financing. Refer to note 3.1 for further detail.

Advances to customers are primarily accounted for at amortised cost, in accordance with the accounting policies of the Group.

	2019 R'000	2018 R'000
Advances to customers	1 619 965	1 595 010
Less: Provision for impairment	(2 868)	—
	1 617 097	1 595 010
Less: Amounts included in current portion of advances to customers	(1 032 657)	(1 238 321)
	584 440	356 689

Cell C guarantees bad debts and cancellations of these customers in terms of the “Amended and Restated Product Procurement and Financing Agreement”. At 31 May 2019, bad debts and cancellations amount to R210 million (2018: R221 million). In terms of the above agreement, if Cell C is unable or admits inability to make a payment as it falls due, or is deemed to or declared to be unable to pay its debts under the applicable law, suspends or threatens to suspend making payments by reason of actual or anticipated financial difficulties, they would be in breach of their agreement. If not remedied, CEC ultimately has a right to port the Cell C base.

3.5.4 Cash and cash equivalents

Cash and cash equivalents include cash on hand and deposits held on call with banks.

	2019 R'000	2018 R'000
Cash at bank	1 385 334	947 546
Cash on hand	262	342
	1 385 596	947 888
Bank overdraft	(7 843)	—
	1 377 753	947 888

Included in this balance is restricted cash of R16.6 million (2018: R8.4 million), received on behalf of and immediately due to third parties, that may not be utilised in the Group's ordinary course of business.

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *continued*

3.6 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.

3.6.1 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.

	2019 R'000	2018 R'000
Trade payables	3 719 714	2 990 561
Accruals	181 406	133 589
Employee benefits	79 594	79 045
Sundry creditors	148 945	149 658
Deferred revenue	8 003	624
Contingent consideration	1 923	4 559
VAT	10 864	11 014
Payables to related parties (refer to note 8)	1 220 937	1 621 748
	5 371 386	4 990 798
Less: Amounts included in current portion of trade and other payables	5 371 386	4 990 798

3.6.2 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.

	2019 R'000	2018 R'000
Interest-bearing borrowings	3 200 408	2 970 938
Non-interest-bearing borrowings	35 876	170
	3 236 284	2 971 108
Less: Amounts included in current portion of borrowings	(1 520 764)	(1 456 968)
	1 715 520	1 514 140

Notes to the Group annual financial statements continued

For the year ended 31 May 2019

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

3.6 Financial liabilities continued

3.6.2 Borrowings continued

The table below details the facilities drawn upon at 31 May 2019. For terms of these facilities, refer to note 3.2.

Facility	Investec	Rand Merchant Bank	Facility utilised	
			2019 R'000	2018 R'000
Senior facility A	50%	50%	858 735	858 735
Senior facility B	50%	50%	400 196	244 873
Mezzanine facility	100%	—	410 532	410 532
Facility A	100%	—	1 512 428	690 067
			3 181 891	2 204 207

The Group did not default on any loans or breach any terms of the underlying agreements during the period.

Non-interest-bearing borrowings are secured and are repayable in 18 instalments 13 months after effective date of the loan grant.

Changes in liabilities arising from financing activities

	Notes	Borrowings due within one year R'000	Borrowings due after one year R'000	Total R'000
Closing balance – 31 May 2017		18 026	—	18 026
Loan release		(11 349)	—	(11 349)
Acquisition of subsidiaries		—	1 269 882	1 269 882
Amount to be settled on 3G Mobile acquisition		718 453	—	718 453
Non-cash interest accrued		45 450	—	45 450
Other changes		(4 738)	—	(4 738)
Non-interest-bearing borrowings repaid		(58)	—	(58)
Interest-bearing borrowings raised		691 184	244 258	935 442
Closing balance – 31 May 2018		1 456 968	1 514 140	2 971 108
Acquisition of subsidiaries net of balance due to BLT elimination on consolidation	2.4	104 529	—	104 529
Elimination of intergroup loan acquired		(98 846)	—	(98 846)
Non-interest-bearing borrowings raised		35 876	—	35 876
Non-interest-bearing borrowings repaid		(170)	—	(170)
Interest-bearing borrowings repaid		(769 652)	—	(769 652)
Interest-bearing borrowings raised		792 059	201 380	993 439
Closing balance – 31 May 2019		1 520 764	1 715 520	3 236 284

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *continued*

3.6 Financial liabilities *continued*

3.6.3 Financial guarantee contracts

Financial guarantee contracts are recognised at fair value, on the date that the Group becomes a party to an irrevocable commitment. Financial guarantee contracts are subsequently stated at the higher of the amount determined by the ECL model and the amount initially recognised. Any difference between the redemption value guarantee obligation and the amount paid is recognised in the income statement.

No financial guarantee contract obligations have been called upon in the current year.

	2019 R'000	2018 R'000
Opening balance	—	—
Adjustment on the initial application of IFRS 9	19 029	—
Additional liability raised during the year through profit and loss	62 132	—
Additional liability raised during the year through investment in joint venture	40 631	—
Acquisition of subsidiaries (Refer to note 2.4)	125 000	—
Amounts released through profit and loss	(3 300)	—
Closing carrying amount	243 492	—

Included in the balance above are guarantees to the value of R121.6 million (2018: R100.8 million) that have been issued in favour of RBL Bank. The Group does not have access to R48.2 million (2018: R37.8 million) of its cash while the guarantee is in place. Should these guarantees be called upon, the Group will be required to settle these amounts within seven days.

Financial guarantee contracts from the acquisition of subsidiaries relates to a guarantee within Glozell Distribution Proprietary Limited issued in favour of Investec Limited. An amount of R125 million, subsequently reduced to R121.7 million by 31 May 2019, is owed to Investec Limited by Glozell Proprietary Limited, and has been guaranteed by Glozell Distribution Proprietary Limited should the former not be able to meet its obligations.

The Group has not raised a liability for its guarantee to the consortium of financial institutions in respect of Cell C's funding of R1.25 billion due to the fact that it holds sufficient collateral, which the Group expects to realise. Refer to note 2.1.

Notes to the Group annual financial statements continued

For the year ended 31 May 2019

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

3.7 Financial instruments at fair value through profit and loss

	Bond notes (SPV1) R'000	Liquidity support (SPV2) R'000	Loans at fair value R'000	Put option liability R'000	Other R'000	Total R'000
Opening balance	167 519	(45 360)	—	(97 947)	625	24 837
Reclassification from financial assets at amortised cost to financial assets at fair value through profit and loss	—	—	361 160	—	—	361 160
Additions	—	326 388	—	(62 784)	—	263 604
Repayments	—	—	(17 974)	—	—	(17 974)
Fair value (loss)/gain recognised in profit or loss	(167 519)	(582 744)	(140 919)	2 093	1 847	(887 242)
Closing balance	—	(301 716)	202 267	(158 638)	2 472	(255 615)
Financial assets at fair value through profit and loss	—	—	202 267	—	2 472	204 739
Financial liabilities at fair value through profit and loss	—	(301 716)	—	(158 638)	—	(460 354)
Closing balance	—	(301 716)	202 267	(158 638)	2 472	(255 615)
Unrealised (losses)/gains	(167 519)	(582 744)	(140 919)	2 093	1 847	(887 242)

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *continued*

3.7 Financial instruments at fair value through profit and loss *continued*

Bond notes and liquidity support

With effect from 2 August 2017, The Prepaid Company purchased bond notes, issued by Cedar Cellular Investments 1 Proprietary Limited (SPV1), from Saudi Oger Limited with a capital redemption value of USD42 million and with a coupon rate of 8.625% per annum for a purchase consideration of USD18 million. 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, resulting in an effective purchase consideration of USD9 million with a capital redemption value of USD21 million.

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 USD36 million of the aforesaid USD80 million thus reducing The Prepaid Company's obligation in this regard to a maximum of USD44 million. As at 31 May 2019, the Group had contributed USD24 million to SPV2 towards the latter amount.

Fair value estimate

SPV1 and SPV2 own 11.8% and 16% of the shares issued by Cell C Limited respectively. No other assets are held by these entities, and as such the Group's bond note and liquidity support arrangements will be settled only when the value of the Cell C shares are realised by SPV1 and SPV2. The substance of these arrangements are therefore derivatives exposing the Group to the share price of Cell C.

The derivatives are initially recognised by the Group at fair value and subsequently measured at fair value through profit or loss.

The derivatives are not traded in an active market and therefore the fair value is determined by the use of a valuation technique. The finance department of the Group includes a team that outsources the valuation to a qualified independent third-party valuation specialist. This team reports directly to the Financial Director (FD) and the Audit, Risk and Compliance Committee (ARCC). The valuation was performed using a binomial model taking into account the value of Cell C Limited. As both arrangements are USD denominated, the model accounts for the forward rate of the USD at the expected listing date.

The derivatives are level 3 instruments in the fair value hierarchy.

As at 31 May 2019, a qualified independent third-party specialist attributed no value to Cell C Limited. As a result, an unrealised fair value loss totalling R750 million was recognised in the current period, of which R167 million related to SPV1 and R583 million to SPV2.

Loans at fair value

TPC acquired a 48% share in Glozell Distribution Proprietary Limited (Glozell Distribution) on 30 June 2018 (refer to note 2.4).

In terms of an agreement entered into between TPC and Glozell Proprietary Limited ("Glozell") during the year ended 31 May 2019, Glozell pledged its 40% shareholding in Glozell Distribution to TPC in the event of Glozell defaulting on amounts owing of R343 million to TPC as at 31 May 2019. The right to enforce this pledge is currently not exercisable. This right only becomes exercisable once Glozell has settled its outstanding debt of R121 million to Investec Bank Limited.

Glozell's ability to repay TPC the amounts owing to it is dependent on the extent of dividends receivable from Glozell Distribution on a piecemeal basis. The contractual terms of the loan have no fixed repayment dates, and in the event that the loan defaults, the only recourse the Group has is to the shares of Glozell Distribution held by Glozell. As such the Group is of the view that the instrument does not meet the requirements to be measured at amortised cost, and therefore this instrument has been reclassified from trade receivables to financial instruments measured at fair value through profit or loss.

A fair value downward adjustment of R141 million of the R343 million owing to TPC was required due to unfavourable wholesale trading conditions impacting on Glozell Distribution's financial performance.

Notes to the Group annual financial statements continued

For the year ended 31 May 2019

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

3.7 Financial instruments at fair value through profit and loss continued

Fair value estimate

A discounted cash flow valuation of Glozell Distribution has been used to determine the value of Glozell's 40% shareholding in Glozell Distribution. This is used to determine the fair value of the loan. This valuation has been performed by the finance department of the Group using cash flow projections based on forecasts for up to five years, which are based on assumptions of the business, industry and economic growth.

Based on the outcome of the value-in-use calculation, a fair value movement of R141 million was recognised against the financial asset.

The derivatives are level 3 instruments in the fair value hierarchy.

Key assumption applied to value-in-use calculation

Discount rate	20.7%
Terminal growth rate	4.2%

Effect on fair value due to change in key assumption	%	Increase/ (decrease) in loan at fair value
Change in discount rate	1	(12 122)
	(1)	13 679
Change in terminal growth rate	2	17 386
	(2)	(13 627)

Put option liability

Put option liabilities represent contracts that impose an obligation on the Group to purchase the shares of a subsidiary for cash or another financial asset. Put option liabilities are initially raised from the transaction with non-controlling interest reserve in equity at the present value of the expected redemption amount payable. Subsequent revisions to the expected redemption amount payable as well as the unwinding of the discount related to the measurement of the present value of the put option liability, are recognised in the income statement. Where a put option liability expires unexercised or is cancelled, the carrying value of the financial liability is released to the transaction with non-controlling interest reserve in equity. The Group recognises the non-controlling interest over which a put option exists at acquisition date.

This relates to a put option that the Group has on the remaining 40% shareholding in Airvantage Proprietary Limited and Airvantage Technology Limited. This is exercisable within the next 12 months. The Group will settle this from available cash resources. The option is valued based on the audited net profit after tax for 12 months ending 28 February 2019 at a six multiple.

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.

4. NON-FINANCIAL INSTRUMENTS [continued](#)

Impairment of non-financial assets [continued](#)

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.

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.

	2019 R'000	2018 R'000
Year ended 31 May		
Opening carrying amount	1 036 243	604 590
Acquisition of subsidiary	313 664	433 686
Impairment of goodwill	(124 400)	—
FCTR on goodwill	9 488	(2 033)
Closing carrying amount	1 234 995	1 036 243
At 31 May		
Cost	1 371 523	1 048 371
Accumulated impairments	(136 528)	(12 128)
Carrying amount	1 234 995	1 036 243

The carrying amount of goodwill and intangible assets was reduced to their recoverable amounts through recognition of an impairment loss of R124.4 million (2018: nil).

Notes to the Group annual financial statements continued

For the year ended 31 May 2019

4. NON-FINANCIAL INSTRUMENTS continued

4.1 Goodwill continued

The cash-generating units to which goodwill is allocated are presented below:

	2019 R'000	2018 R'000
3G Mobile Proprietary Limited	47 212	43 478
Airvantage Proprietary Limited	52 707	52 707
AV Technology Limited	55 053	—
Blue Label Connect Proprietary Limited	156 501	205 749
Blue Label Distribution Proprietary Limited	36 364	36 364
CEC Proprietary Limited	335 468	335 468
Cellfind Proprietary Limited	21 406	21 406
Datacel Group	79 854	79 854
Glocell Distribution Proprietary Limited	218 779	—
Panacea Mobile Proprietary Limited	6 883	6 883
Reware Proprietary Limited	—	1 150
The Prepaid Company Proprietary Limited	62 113	62 113
TicketPros Proprietary Limited	5 104	5 104
Viamedia Proprietary Limited	111 964	185 967
WiConnect Proprietary Limited	45 587	—
	1 234 995	1 036 243

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:

	2019		2018	
	Terminal growth rate %	Discount rate %	Discount rate %	Discount rate %
3G Mobile Proprietary Limited	5.5	19.5	5.5	20.4
Airvantage Proprietary Limited	4.0	35.9	4.0	18.7
AV Technology Limited	2.5	17.9	—	—
Blue Label Connect Proprietary Limited	4.2	22.7	4.2	18.7
Blue Label Distribution Proprietary Limited	4.2	19.7	4.2	19.4
CEC Proprietary Limited	5.5	21.8	5.5	19.3
Cellfind Proprietary Limited	4.2	23.3	4.0	20.5
Datacel Group	2.5	27.2	2.5	25.3
Glocell Distribution Proprietary Limited	4.2	20.7	—	—
Panacea Mobile Proprietary Limited	4.2	22.9	4.0	20.0
Reware Proprietary Limited	4.2	23.5	4.2	17.8
The Prepaid Company Proprietary Limited	4.2	15.8	4.2	14.5
TicketPros Proprietary Limited	4.2	19.8	4.2	18.0
Viamedia Proprietary Limited	4.2	29.0	4.0	19.2
WiConnect Proprietary Limited	4.2	33.4	—	—

4. NON-FINANCIAL INSTRUMENTS continued

4.1 Goodwill continued

The discount rates used are pre-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. The discount rates used for the prior year were adjusted to reflect the Group's target debt to equity ratio. This did not give rise to any impairments in the prior period.

For all goodwill balances, except the goodwill balances mentioned below, 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.

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 %	Decrease in terminal growth rate %	Excess over carrying value R'000
3G Mobile Proprietary Limited	0.8	1.4	28 391
Airvantage Proprietary Limited	0.2	0.7	1 199
AV Technology Limited	0.3	0.5	2 015
CEC Proprietary Limited	2.3	5.5	279 202
Glocell Distribution Proprietary Limited	3.1	4.2	40 855

In the event of Cell C being liquidated, the goodwill allocated to the Airvantage cash-generating unit, would be at risk of impairment.

In addition to the value-in-use calculations referred to above, the Group applied an alternative method using the fair value less cost to sell approach in determining the recoverable amount of CEC Proprietary Limited. Based on this method the recoverable amount is sufficient to support the carrying value of the investment as at 31 May 2019.

The goodwill in Reware Proprietary Limited of R1.1 million was fully impaired, and the goodwill in Viamedia Proprietary Limited and Blue Label Connect Proprietary Limited were partially impaired by R74 million and R49.2 million respectively in the current financial year. There were no goodwill impairments in the prior year.

Viamedia impairment

Viamedia's performance has been negatively impacted as a result of a sector-wide decline in the B2C (direct to consumer) WASP industry. Previously this was significantly offset by growth in its Enterprise division. However, over the past six months, the latter division has flat-lined, which together with the continued decline in the B2C channel, has caused a negative impact on operating profits with marginal growth expectations going forward.

Consequently, the decline in the value-in-use of the company has resulted in an impairment to Goodwill of R74 million.

Blue Label Connect

Blue Label Connect's performance has been negatively impacted as a result of challenging economic conditions that have affected one of its major clients. Furthermore, margin compression resulting from reduced incentives from the networks as well as an increase in product costs, has resulted in an impairment of R49.2 million to goodwill.

4.2 Intangible assets

(a) Distribution agreements and customer relationships

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 20 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 (20 years).

Notes to the Group annual financial statements continued

For the year ended 31 May 2019

4. NON-FINANCIAL INSTRUMENTS continued

4.2 Intangible assets continued

(b) 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 program are expensed as incurred.

(c) 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.

(d) Purchased starter pack bases and postpaid bases

Starter packs capitalised represent customer relationships that the Group has contractually acquired. The purchased starter pack base asset is identifiable as it arises from a contract. The contract provides the Group with control over the customer base. The customer base does not have physical substance and is therefore intangible. This asset provides the Group with the ability to generate future economic benefits if the Group provides connection, upgrade and sales services to the customer base, therefore the asset is non-monetary.

Purchased starter pack bases 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 (10 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 10 years, based on management's estimates and taking into account historical experience as well as future events which may impact the useful lives.

4. NON-FINANCIAL INSTRUMENTS continued

4.2 Intangible assets continued

	Distribution agreement R'000	Customer relationships R'000	Computer software R'000	Internally generated software development R'000	Purchased starter pack bases and postpaid bases R'000	Total R'000
Year ended 31 May 2019						
Opening carrying amount	702 603	93 035	74 376	52 134	154 721	1 076 869
Additions	—	17 773	27 706	28 075	2 377	75 931
Acquisition of subsidiaries	—	128 107	2 316	—	—	130 423
Disposals	—	—	109	—	(110)	(1)
Amortisation charge	(80 518)	(35 593)	(37 358)	(19 468)	(30 492)*	(203 429)
Impairments	—	—	—	(5 111)	—	(5 111)**
Translation difference	—	8 597	49	—	—	8 646
Closing carrying amount	622 085	211 919	67 198	55 630	126 496	1 083 328
At 31 May 2019						
Cost	858 698	421 012	180 648	125 398	581 831	2 167 587
Accumulated amortisation	(234 735)	(208 478)	(112 753)	(55 179)	(455 335)	(1 066 480)
Accumulated impairments	(1 878)	(615)	(697)	(14 589)	—	(17 779)
Carrying amount	622 085	211 919	67 198	55 630	126 496	1 083 328
Year ended 31 May 2018						
Opening carrying amount	214 215	979	61 505	46 247	188 218	511 164
Additions	—	—	16 396	14 787	—	31 183
Acquisition of subsidiaries	541 247	97 368	27 732	7 491	—	673 838
Amortisation charge	(52 858)	(5 311)	(30 915)	(16 391)	(33 497)	(138 972)
Impairments	—	—	(338)	—	—	(338)
Translation difference	—	—	(4)	—	—	(4)
Closing carrying amount	702 604	93 036	74 376	52 134	154 721	1 076 871
At 31 May 2018						
Cost	858 698	264 815	183 620	125 884	579 564	2 012 581
Accumulated amortisation	(154 216)	(171 164)	(108 547)	(59 161)	(424 843)	(917 931)
Accumulated impairments	(1 878)	(615)	(697)	(14 589)	—	(17 779)
Carrying amount	702 604	93 036	74 376	52 134	154 721	1 076 871

* Included in the amortisation charge is an amount of R30.5 million (2018: R33.5 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.

** Included in Depreciation and amortisation on the Group income statement.

Notes to the Group annual financial statements continued

For the year ended 31 May 2019

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.

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.

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, fittings and office equipment	16.67% – 25%
Motor vehicles	20% – 25%
Terminals and vending machines	16.67%
Buildings	8.33%

Major leasehold improvements are amortised over the shorter of their respective lease periods and estimated useful lives.

4. NON-FINANCIAL INSTRUMENTS continued

4.3 Property, plant and equipment continued

	Computer equipment R'000	Furniture, fittings and office equipment R'000	Motor vehicles R'000	Leasehold improve- ments R'000	Terminals and vending machines R'000	Buildings R'000	Total R'000
Year ended 31 May 2019							
Opening carrying amount	40 286	10 908	21 599	5 200	55 028	4 099	137 120
Additions	32 449	10 099	10 063	17 841	63 576	—	134 028
Acquisition of subsidiaries	7 443	18 433	455	14 164	4 488	—	44 983
Disposals	(547)	(7)	(2 842)	(199)	(874)	—	(4 469)
Depreciation charge	(21 302)	(11 043)	(6 754)	(5 011)	(28 854)	—	(72 964)
Impairments	—	—	—	—	(2 002)	—	(2 002)
Translation difference	—	15	87	859	—	—	961
Closing carrying amount	58 329	28 405	22 608	32 854	91 362	4 099	237 657
At 31 May 2019							
Cost	140 964	50 113	33 740	84 994	206 517	4 099	520 427
Accumulated depreciation	(82 465)	(20 584)	(11 132)	(51 702)	(111 897)	—	(277 780)
Accumulated impairments	(170)	(1 124)	—	(438)	(3 258)	—	(4 990)
Carrying amount	58 329	28 405	22 608	32 854	91 362	4 099	237 657
Year ended 31 May 2018							
Opening carrying amount	34 883	7 102	11 139	2 494	51 882	4 099	111 599
Additions	18 335	2 981	16 659	3 446	30 219	—	71 640
Acquisition of subsidiaries	2 208	3 590	2 148	678	—	—	8 624
Disposals	(78)	(280)	(3 442)	(2)	(900)	—	(4 702)
Depreciation charge	(15 043)	(2 491)	(4 834)	(1 403)	(22 373)	—	(46 144)
Impairments	—	—	—	—	(3 800)	—	(3 800)
Translation difference	(19)	6	(71)	(13)	—	—	(97)
Closing carrying amount	40 286	10 908	21 599	5 200	55 028	4 099	137 120
At 31 May 2018							
Cost	113 260	26 007	31 155	52 367	148 051	4 099	374 939
Accumulated depreciation	(72 804)	(13 975)	(9 556)	(46 729)	(91 767)	—	(234 831)
Accumulated impairments	(170)	(1 124)	—	(438)	(1 256)	—	(2 988)
Carrying amount	40 286	10 908	21 599	5 200	55 028	4 099	137 120

* Included in Depreciation and amortisation on the Group income statement.

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 2019

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 (net of rebates and discounts) 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. Where unused PINS have been recycled and included in inventory for resale, the Group recognises the stock at no value.

	2019 R'000	2018 R'000
Finished goods		
Prepaid airtime	1 069 511	428 775
Handsets	394 795	142 799
Other*	50 343	26 372
	1 514 649	597 946

* Other inventory mainly consists of starter packs and consumables.

Inventories with a cost of R23.2 billion (2018: R24.4 billion) were sold during the year and have been charged to the income statement.

Included in the above balances are provisions for obsolete, unusable and unsaleable inventory and for latent damage to the value of R17.5 million (2018: R10.9 million).

A general notarial bond is held by Investec Bank Limited over airtime up to R1.5 billion (2018: R1.5 billion).

There is no unrealised profit included in Cell C prepaid airtime inventory at year-end due to Cell C only recognising revenue from the sale of period airtime on utilisation by the customer.

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	Other provisions R'000	Total R'000
Opening balance	36 031	3 597	39 628
Additions	478 007	45 965	523 972
Acquisition of subsidiaries	—	—	—
Used during the year	(495 271)	(43 382)	(538 653)
Reversed	—	—	—
Closing carrying amount	18 767	6 180	24 947

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.

The Group is not involved in any significant litigation at year-end.

5. EMPLOYEES

5.1 Equity compensation benefit

During the year 5,947,453 (2018: 1 809 711) 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. No dividend was declared on 21 August 2018. (A dividend of 40 cents per ordinary share was declared on 23 August 2017.)

The performance condition of the forfeitable shares for the eighth award vested on 31 August 2018 is 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 eighth awards was 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, tenth and eleventh award grant vesting on 31 August 2019, 31 August 2020 and 31 August 2021 respectively are 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, tenth and eleventh award grant vesting on 31 August 2019, 31 August 2020 and 31 August 2021 respectively are 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).

Notes to the Group annual financial statements continued

For the year ended 31 May 2019

5. EMPLOYEES continued

5.1 Equity compensation benefit continued

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.

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 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
Granted during the year			1 809 711	33 462
Tenth award	1 September 2017	31 August 2020	1 809 711	33 462
Shares forfeited during the year			(456 379)	(6 432)
Eighth award			(287 044)	(2 919)
Ninth award			(169 335)	(3 513)
Shares vested during the year			(2 432 743)	(21 652)
Seventh award		31 August 2017	(2 432 743)	(21 652)
At 31 May 2018			5 262 079	81 342
Eighth award			2 245 446	22 836
Ninth award			1 206 922	25 044
Tenth award			1 809 711	33 462
Granted during the year			5 947 453	42 584
Eleventh award	1 September 2018	31 August 2021	5 947 453	42 584
Shares forfeited during the year			(473 121)	(7 080)
Eighth award			(224 545)	(2 284)
Ninth award			(88 243)	(1 831)
Tenth award			(160 333)	(2 965)
Shares vested during the year			(2 020 901)	(20 552)
Eighth award		31 August 2018	(2 020 901)	(20 552)
At 31 May 2019			8 715 510	96 294
Ninth award			1 118 679	23 213
Tenth award			1 649 378	30 497
Eleventh award			5 947 453	42 584

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 1 135 411 (2018: 414 785).

The share-based payment expense in relation to these Executive Directors is -R0.9 million (2018: R7.2 million). Refer to note 5.3 for details of awards per Director.

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.

	2019 R'000	2018 R'000
Salaries and wages	517 663	433 280
Bonuses	67 829	64 727
Equity compensation benefit	7 726	23 862
Other	965	2 318
	594 183	524 187

Average number of employees for the year was 1 014 (2018: 831).

Notes to the Group annual financial statements continued

For the year ended 31 May 2019

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 perfor- mance- related payments R'000	Restraint of trade payments R'000	Other benefits R'000
For the year ended 31 May 2019					
Executive directors					
BM Levy	—	—	—	—	—
MS Levy	—	—	—	—	—
DA Suntut	—	—	—	—	—
	—	—	—	—	—
Non-executive directors					
LM Nestadt	1 950	—	—	—	—
K Ellrine	604	—	—	—	—
G Harlow	1 124	—	—	—	—
J Mthimunya	1 012	—	—	—	—
JS Vilakazi	747	—	—	—	—
P Mahanyele**	374	—	—	—	—
	5 811	—	—	—	—
	5 811	—	—	—	—
For the year ended 31 May 2018					
Executive directors					
BM Levy	—	8 486	—	1 947	176
MS Levy	—	8 499	—	1 947	163
DA Suntut	—	4 425	—	—	163
	—	21 410	—	3 894	502
Non-executive directors					
LM Nestadt	1 840	—	—	—	—
K Ellrine	570	—	—	—	—
G Harlow	1 060	—	—	—	—
J Mthimunya	955	—	—	—	—
JS Vilakazi	705	—	—	—	—
P Mahanyele	780	—	—	—	—
	5 910	—	—	—	—
	5 910	21 410	—	3 894	502

** P Mahanyele resigned with effect from 23 November 2018.

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.

	Subtotal R'000	Services as Directors of subsidiaries of Blue Label Telecoms Limited R'000	Salary and allowances from subsidiaries R'000	Bonuses and perfor- mance- related payments from subsidiaries R'000	Restraint of trade payments from subsidiaries R'000	Other benefits from subsidiaries R'000	Total R'000	Fair value of forfeitable shares R'000
—	—	—	8 991	—	3 338	191	12 520	2 835
—	—	—	9 005	—	3 338	177	12 520	2 835
—	—	—	4 686	—	—	177	4 863	1 502
—	—	—	22 682	—	6 676	545	29 903	7 172
1 950	—	—	—	—	—	—	1 950	
604	—	—	—	—	—	—	604	
1 124	514	—	—	—	—	—	1 638	
1 012	53	—	—	—	—	—	1 065	
747	—	—	—	—	—	—	747	
374	—	—	—	—	—	—	374	
5 811	567	—	—	—	—	—	6 378	
5 811	567	—	22 682	—	6 676	545	36 281	7 172
10 609	—	—	—	—	—	—	10 609	6 655
10 609	—	—	—	—	—	—	10 609	6 655
4 588	—	—	—	—	—	—	4 588	3 525
25 806	—	—	—	—	—	—	25 806	16 835
1 840	—	—	—	—	—	—	1 840	
570	—	—	—	—	—	—	570	
1 060	555	—	—	—	—	—	1 615	
955	25	—	—	—	—	—	980	
705	—	—	—	—	—	—	705	
780	—	—	—	—	—	—	780	
5 910	580	—	—	—	—	—	6 490	
31 716	580	—	—	—	—	—	32 296	16 835

Notes to the Group annual financial statements continued

For the year ended 31 May 2019

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 2019			
BM Levy	1 September 2015	10.17	31 August 2018
BM Levy	18 October 2016	20.75	31 August 2019
BM Levy	1 September 2017	18.49	31 August 2020
BM Levy	1 September 2018	7.16	31 August 2021
MS Levy	1 September 2015	10.17	31 August 2018
MS Levy	18 October 2016	20.75	31 August 2019
MS Levy	1 September 2017	18.49	31 August 2020
MS Levy	1 September 2018	7.16	31 August 2021
DA Suntup	1 September 2015	10.17	31 August 2018
DA Suntup	18 October 2016	20.75	31 August 2019
DA Suntup	1 September 2017	18.49	31 August 2020
DA Suntup	1 September 2018	7.16	31 August 2021
For the year ended 31 May 2018			
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
BM Levy	1 September 2017	18.49	31 August 2020
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
MS Levy	1 September 2017	18.49	31 August 2020
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
DA Suntup	1 September 2017	18.49	31 August 2020

	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
	262 834	—	(26 283)	(236 551)	—
	137 194	—	—	—	137 194
	163 970	—	—	—	163 970
	—	448 843	—	—	448 843
	563 998	448 843	(26 283)	(236 551)	750 007
	262 834	—	(26 283)	(236 551)	—
	137 194	—	—	—	137 194
	163 970	—	—	—	163 970
	—	448 843	—	—	448 843
	563 998	448 843	(26 283)	(236 551)	750 007
	139 207	—	(13 921)	(125 286)	—
	72 663	—	—	—	72 663
	86 845	—	—	—	86 845
	—	237 725	—	—	237 725
	298 715	237 725	(13 921)	(125 286)	397 233
	283 339	—	—	(283 339)	—
	262 834	—	—	—	262 834
	137 194	—	—	—	137 194
	—	163 970	—	—	163 970
	683 367	163 970	—	(283 339)	563 998
	283 339	—	—	(283 339)	—
	262 834	—	—	—	262 834
	137 194	—	—	—	137 194
	—	163 970	—	—	163 970
	683 367	163 970	—	(283 339)	563 998
	150 067	—	—	(150 067)	—
	139 207	—	—	—	139 207
	72 663	—	—	—	72 663
	—	86 845	—	—	86 845
	361 937	86 845	—	(150 067)	298 715

Notes to the Group annual financial statements continued

For the year ended 31 May 2019

6. EQUITY

6.1. 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.

	2019 Number of shares	2018 Number of shares	2019 R'000	2018 R'000
Authorised				
Total authorised share capital of ordinary shares (par value of R0.000001 each)	2 000 000 000	2 000 000 000	2	2
Issued				
Balance at the beginning of the year	940 885 750	668 036 256	1	*
Shares issued during the year	—	271 999 999	—	1
Shares acquired during the year	(5 852 017)	(1 583 248)	*	*
Share buy-back	(32 853 168)	—	*	*
Shares vested during the year	2 020 901	2 432 743	*	*
Balance at the end of the year	904 201 466	940 885 750	1	1

* 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 2019 is 913 655 874 (2018: 946 509 041).

The Company acquired 5 852 017 (2018: 1 583 248) shares at an average price of R7.24 (2018: R18.22) 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 R42 378 078 (2018: R28 845 987) and has been deducted from shareholders' equity. These shares are held as treasury shares, and netted off of share premium.

Refer to note 5.1 for details on the forfeitable shares.

Over the period 22 August 2018 to 21 September 2018, 32 853 168 shares were repurchased at a weighted average price of R6.78 per share.

On 2 August 2017, Blue Label, through its wholly owned subsidiary, TPC, acquired 45% of the issued share capital of Cell C. This purchase was partially funded by the subscription of 183 333 333 ordinary shares by third parties. Refer to note 2.1 for further details.

TPC acquired 100% of the issued share capital in 3G Mobile from its shareholders. The acquisition has been structured in two stages whereby 47.37% was acquired on 2 August 2017 and the remaining 52.63% was acquired on 6 December 2017. Of the initial purchase of 47.37%, 16 666 666 ordinary shares were issued to the 3G Mobile shareholders in part settlement. Refer to note 2.1 for further details. The remaining 52.63% was part settled by the issue of 72 000 000 shares to third parties.

	2018 Number of shares issued	Value R'000
Date of issue		
2 August 2017	183 333 333	2 750 000
2 August 2017	16 666 666	282 833*
27 February 2018	72 000 000	900 000
	271 999 999	3 932 833

* Shares issued to sellers as purchase consideration for acquisition of associate. Refer to note 2.1.

6. EQUITY continued

6.2 Other reserves

	Notes	2019 R'000	2018 R'000
Balance at the beginning of the year as previously reported		(2 814 202)	(2 665 758)
Prior year error*	11	—	(43 418)
Balance at the beginning of the year – restated		(2 814 202)	(2 709 176)
Exchange differences on translation of foreign operations		63 905	(14 182)
Transactions with non-controlling interests**	3.7	(61 677)	(93 966)
B-BBEE transaction		—	1 400
Equity compensation benefit scheme shares vested		(19 915)	(21 362)
Equity compensation benefit movement		7 149	23 084
Balance at the end of the year		(2 824 740)	(2 814 202)
Consisting of:			
Restructuring reserve		(1 843 912)	(1 843 912)
Foreign currency translation reserve		105 520	41 615
Non-distributable reserve		7 821	7 821
Transactions with non-controlling interest reserve		(1 130 945)	(1 069 268)
Share-based payment reserve		1 400	1 400
Equity compensation benefit reserve		35 376	48 142
		(2 824 740)	(2 814 202)

* As a result of the prior year error the Group has restated their comparative financial information. Refer to note 11 for details.

** This relates to a put option that the Group has on the remaining 40% shareholding in Airvantage Proprietary Limited. Refer to note 3.7.

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.

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

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.

The share-based payment reserve relates to a B-BBEE transaction concluded by Panacea Mobile Proprietary Limited and Simigenix Proprietary Limited (the companies), subsidiaries of Blue Label Telecoms. In October 2017, the companies declared dividends to the full value of the companies to Blue Label Telecoms. Such dividends were immediately converted to preference shares. Subsequent to this, the companies issued shares to Bitsana Investments Proprietary Limited for nominal value. The Group has not recognised this dilution and accounts for the companies as wholly owned subsidiaries until the preference shares have been settled in full. The preference shares will be settled through the declaration of dividends by the companies. There are no specified dates for this.

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.

Notes to the Group annual financial statements continued

For the year ended 31 May 2019

7. TAXATION continued

7.1 Income tax expense continued

Critical accounting estimates and assumptions

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.

	2019 R'000	Restated* 2018 R'000
Current tax	339 670	330 920
Current year	339 894	330 763
Adjustment in respect of prior years	(224)	157
Deferred tax	(24 548)	149
Current year	(31 542)	149
Adjustment in respect of prior years	6 994	—
	315 122	331 069
Profit before tax	(6 307 074)	1 506 839
Tax at 28%	(1 765 981)	421 915
Loss on liquidity support not deductible	41 728	—
Remeasurement of business acquisition contingent consideration	—	18 232
Expenditure of a capital nature	5 025	1 948
Financial guarantee contracts	27 850	—
Other income not subject to tax	(27 845)	(5 156)
Other expenses not deductible for tax purposes	73 674	10 535
Impairment of goodwill	34 832	—
Interest receivable impaired in prior years written off	—	(8 257)
Impairment of loan to joint venture (refer to note 2.1)	45 233	39 718
Impairment of investment in associate and joint venture (refer to note 2.1)	714 186	—
Surety loan recognition	(8 399)	(15 401)
Capital gains tax	16 896	—
Tax effect of assessed losses not recognised	122 919	13 416
Utilisation of previously unrecognised assessed losses	(460)	(262)
Share of losses/(profits) from associates and joint ventures (refer to note 2.1)	1 036 395	(145 776)
Adjustment in respect of prior years	6 770	157
Effect of different tax dispensations	(8 813)	—
Withholding tax	1 112	—
Tax charge	315 122	331 069
Effective tax rate (%)	(5)	22

* As a result of the prior year error the Group has restated their comparative financial information. Refer to note 11 for details.

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	Purchase price allocations and fair value gains R'000	Provisions R'000	Tax losses R'000	Prepay- ments R'000	Unrealised foreign exchange differences R'000	Other R'000	Total R'000
At 31 May 2017 as previously stated	7 370	36 304	(22 381)	(16 290)	2 802	17 734	(2 845)	22 694
Charged/(credited) to the income statement	1 126	(11 973)	(5 267)	(7 366)	2 473	(2 683)	23 839	149
Acquisition of subsidiaries	1 946	183 852	(4 341)	(353)	13	—	(20 083)	161 034
At 31 May 2018	10 442	208 183	(31 989)	(24 009)	5 288	15 051	911	183 877
Adjustment on the initial application of IFRS 9	—	—	(10 067)	(378)	—	—	(276)	(10 721)
Adjustment on the initial application of IFRS 15	—	—	—	—	—	—	(11 816)	(11 816)
Charged/(credited) to the income statement to the income statement	3 622	(28 506)	(6 188)	(8 146)	1 145	6 181	7 344	(24 548)
Acquisition of subsidiaries (refer to note 2.4)	(82)	39 302	—	(18 067)	—	—	—	21 153
Foreign currency translation reserve	—	2 407	—	—	—	—	—	2 407
At 31 May 2019	13 982	221 386	(48 244)	(50 600)	6 433	21 232	(3 837)	160 352

Notes to the Group annual financial statements continued

For the year ended 31 May 2019

7. TAXATION continued

7.2 Deferred taxation continued

	2019 R'000	2018 R'000
Deferred tax asset comprises:		
Purchase price allocations and fair value gains	—	(280)
Provisions	(48 244)	(31 989)
Tax losses	(50 600)	(24 009)
Other	(8 760)	(10 822)
Total deferred tax asset	(107 604)	(67 100)
Deferred tax liability comprises:		
Capital allowances	13 982	10 442
Purchase price allocations and fair value gains	221 386	208 463
Prepayments	6 433	5 288
Unrealised foreign exchange differences	21 232	15 051
Other	4 923	11 733
Total deferred tax liability	267 956	250 977
Net deferred tax	160 352	183 877
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	(3 532)	(8 205)
Deferred tax assets to be recovered within 12 months	(72 516)	(37 018)
Net deferred tax asset	(76 048)	(45 223)
Deferred tax liabilities		
Deferred tax liabilities to be recovered after more than 12 months	197 710	192 077
Deferred tax liabilities to be recovered within 12 months	38 690	37 023
Net deferred tax liability	236 400	229 100
Net deferred tax	160 352	183 877

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 R139.2 million (2018: R16.7 million) in respect of losses amounting to R557.5 million (2018: R59.8 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.

8. RELATED PARTIES

Transactions and balances with related parties:

	Sales to related parties		Purchases from related parties	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
3G Mobile (Botswana) Proprietary Limited*	9 931	13 162	352	2 200
Black Ginger 59 Proprietary Limited	—	—	11 917	12 305
Bluchip Retail Solutions Proprietary Limited	—	—	—	1 157
Bluchip Holdings Proprietary Limited	—	133	—	—
Blue Label Mexico S.A. de C.V.*	6 120	5 445	1 773	—
Datascion Proprietary Limited*	—	142	—	—
Cell C Limited*	2 030 623	1 100 788	6 203 272	4 873 215
JRL Autotraders Proprietary Limited	—	525	4 506	910
WiConnect Proprietary Limited*	—	13 401	—	—
Melrose Motor Investments Proprietary Limited	—	—	3 033	4 228
Prepaid24 Proprietary Limited*	9 136	7 993	—	—
SSG Cleaning Proprietary Limited	—	—	—	8
SSG Security Solutions Proprietary Limited	—	—	700	384
T3 Telecoms SA Proprietary Limited*	38	—	31 312	—
The Grill House Close Corporation	—	—	153	100
Unihold Group Proprietary Limited	346	2	53	—
United Call Centre Solutions Proprietary Limited*	13 854	3 817	25 647	2 205
Utilities World Proprietary Limited*	—	—	—	10 604
Uvongo Falls No 26 Proprietary Limited	—	—	1 680	1 170
ZOK Cellular Proprietary Limited	1 071	1 756	17 395	17 549
	2 071 119	1 147 164	6 301 793	4 926 035
	Other income received from related parties		Other expenses paid to related parties	
Interest received from related parties				
2DFine Holdings Mauritius* (refer to note 2.2)	3 776	21 736	—	—
Cell C Limited* (refer to note 2.1)	141 841	96 380	—	—
WiConnect Proprietary Limited* (refer to note 2.1)	—	3 326	—	—
Oxygen Services India Private Limited* (refer to note 2.2)	—	1 025	—	—
Prepaid24 Proprietary Limited*	—	538	—	—
SupaPesa South Africa Proprietary Limited* (refer to note 2.1)	662	739	—	—
T3 Telecoms SA Proprietary Limited	32	—	—	—
United Call Centre Solutions Proprietary Limited*	1 961	196	—	—
Management fees received from related parties				
Datascion Proprietary Limited*	270	460	—	—
T3 Telecoms SA Proprietary Limited	100	—	—	—
United Call Centre Solutions Proprietary Limited*	600	600	—	—
Interest paid to related parties				
United Call Centre Solutions Proprietary Limited*	—	—	149	—
Rent paid to related parties				
Ellerine Bros. Proprietary Limited	—	—	7 800	8 582
Moneyline 311 Proprietary Limited	—	—	7 800	8 582
Unihold Group Proprietary Limited	—	—	1 780	—
Uvongo Falls No 26 Proprietary Limited	—	—	4 899	6 389
Wildeckrans Trust	—	—	—	4 257
Purchases of property, plant and equipment from related parties				
Bluchip Retail Solutions Proprietary Limited	—	—	3 156	—
Melrose Motor Investments Proprietary Limited	—	—	160	1 238
	149 242	125 000	25 744	29 048

Notes to the Group annual financial statements continued

For the year ended 31 May 2019

8. RELATED PARTIES continued

	Loans to related parties		Loans from related parties	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
2DFine Holdings Mauritius* (refer to note 2.1)	208 026	242 687	—	—
Brett Levy (refer to note 3.5.1)	42 502	27 503	—	—
Cell C Limited* (refer to note 2.1)	—	1 029 626	—	—
WiConnect Proprietary Limited* (refer to note 2.1)	—	79 249	—	—
Mark Levy (refer to note 3.5.1)	42 502	27 503	—	—
Oxygen Services India Private Limited* (refer to note 2.1)	47 216	34 018	—	—
Prepaid24 Proprietary Limited* (refer to note 2.1)	13 650	13 370	—	—
SupaPesa South Africa Proprietary Limited* (refer to note 2.1)	5 765	6 265	—	—
T3 Telecoms SA Proprietary Limited	3 685	—	—	—
United Call Centre Solutions Proprietary Limited* (refer to note 2.1)	17 000	18 190	—	—
ZOK Cellular Proprietary Limited (refer to note 3.5.1)	14 018	19 768	—	—
Total loss allowance on loans to related parties (refer to notes 2.1 and 3.5.1)	(269 168)	(141 850)	—	—
	125 196	1 356 329	—	—
	Amounts due from related parties included in trade receivables		Amounts due to related parties included in trade payables	
3G Mobile (Botswana) Proprietary Limited*	22 802	31 688	136	30 799
Black Ginger 59 Proprietary Limited	101	14	—	2 177
Bluchip Holdings Proprietary Limited	—	287	—	—
Bluchip Retail Solutions Proprietary Limited	259	—	—	—
Blue Label Mexico S.A. de C.V.*	2 206	2 757	—	—
Cell C Limited*	1 352 718	1 028 184	1 212 392	1 573 472
Datacion Proprietary Limited*	35	675	—	128
iCrypto Inc	70	—	—	—
WiConnect Proprietary Limited*	—	35 528	—	—
Oxygen Services India Private Limited*	5 876	5 244	—	—
Prepaid24 Proprietary Limited*	70	61	—	2 844
SupaPesa South Africa Proprietary Limited* (refer to note 2.1)	1 106	—	—	—
T3 Telecoms SA Proprietary Limited	254	—	5 118	—
Unihold Group Proprietary Limited	464	—	2	—
United Call Centre Solutions Proprietary Limited*	1 730	896	3 154	905
Utilities World Proprietary Limited*	—	16 551	—	11 423
Uvongo Falls No 26 Proprietary Limited	—	—	135	—
	1 387 691	1 121 885	1 220 937	1 621 748

¹ Prior year amount has been adjusted as advances to customers are not regarded as advances to Cell C. They are advances to Cell C's end user.

* These entities are associates/joint ventures. For further details in this regard refer to note 2.1.

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.

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:

	2019 R'000	2018 R'000
Premises		
Payable within one year	51 575	28 932
Payable in two to five years	131 363	88 398
Payable in greater than five years	—	—
	182 938	117 330

9.2 Subsequent events and going concern

Disposals

The Blue Label Group has consistently generated positive cash flows from its trading operations since its listing. These funds have been applied to dividend distributions, share buy-backs and investing activities, at all times ensuring sufficient surplus funds to facilitate working capital requirements. Over the past two years significant investments were made, necessitating an increase in interest-bearing debt in order to ensure that working capital requirements remained intact. Accordingly, the Board of Directors have made a decision to deleverage the business in order to ensure a more robust and liquid balance sheet going forward. This deleveraging will be achieved through the disposal of certain assets, as reflected in subsequent events below, the proceeds of which will amount to approximately R1.07 billion. The disposal thereof will not have a negative impact on the extensive distribution network that Blue Label has established and will not inhibit its distribution capabilities nor on its strategic objectives going forward. These funds will be applied to reduce current interest-bearing debt.

Blue Label Mobile restructure and disposal

On 3 June 2019, BLT restructured its holdings in Cellfind Proprietary Limited (Cellfind), Viamedia Proprietary Limited (Viamedia), Airvantage Proprietary Limited (Airvantage) and AV Technology Limited (AV Technology). Prior to the restructure, BLT owned 100% of Cellfind, 60% of Airvantage, 60% of AV Technology and 75% of Viamedia. Malik Investments Holdings Proprietary Limited (Malik), a non-Group company, owned 25% of Viamedia. In terms of the restructure, BLT exchanged its shares in Cellfind, Viamedia, Airvantage and AV Technology for 89.51% of the shares in a new entity called Blue Label Mobile Group Proprietary Limited (BLM). Malik thereafter exchanged its 25% shareholding in Viamedia for 10.49% in BLM. Following this, Malik subscribed for a further 4.51% in BLM for R34 million, increasing its shareholding in BLM to 15% with BLT owning the remaining 85%. BLT retains all of the existing rights and obligations with respect to the remaining put and/or call options on 40% of the shares in Airvantage and AV Technology (refer to note 3.7).

Subsequent to the restructure, BLT assigned its rights and obligations to acquire 50% of Hyve Mobile Proprietary Limited (Hyve) to BLM. The first tranche of payment due to the shareholders of Hyve was for R80 million, of which R47 million plus interest of R1.3 million has been paid. On payment of the balance of R33 million, BLM's 50% holding in Hyve will become effective. Thereafter, three additional tranches totalling an estimated R90.4 million will be payable over a three-year period based on performance targets. BLM has a call option to acquire a further 25% of Hyve, exercisable up until 30 September 2021, for an estimated purchase consideration of R85.2 million.

Post-year-end, BLT entered into an agreement to dispose of its 85% shareholding in BLM as well as its 51% shareholdings in Simigenix Proprietary Limited (Simigenix) and Panacea Proprietary Limited (Panacea), to DNI 4PL Contracts Proprietary Limited (DNI), for a purchase consideration of R450 million, inclusive of loan claims, plus the amounts which BLM has disbursed towards the acquisition of 50% of Hyve as at the transaction closing date. The purchase price will be as follows:

- R350 million plus the amounts BLT have disbursed for the acquisition of 50% of Hyve as at the transaction closing date; and
- R100 million, bearing interest at prime overdraft rates plus 2% per annum compounded on a monthly basis, deferred until the solvency and liquidity status of Cell C is proven.

Notes to the Group annual financial statements continued

For the year ended 31 May 2019

9. UNRECOGNISED ITEMS continued

9.2 Subsequent events continued

Blue Label Mobile restructure and disposal continued

The above proceeds received will be applied to reduce interest-bearing debt.

Post-disposal of BLM, BLT will continue to assume the obligation with respect to the put and/or call options on 40% of the shares in Airvantage and AV Technology, until such time as the liquidity and solvency status of Cell C is proven. At that stage the obligation in respect of the put and/or call options will revert back to BLM. The put and/or call options cannot be exercised prior to the finalisation of the 31 May 2020 financial results of both entities.

Should BLT be obligated to meet the commitment relating to the put option, and the liquidity and solvency is never proven thereafter, then the R100 million deferred purchase price and the interest accrued thereon will be forfeited by BLT, but in lieu thereof, BLM will transfer an additional 24% of the issued share capital of Airvantage and AV Technologies to BLT, resulting in BLT ownership of these entities amounting to 64%.

Should BLT be obligated to meet the commitment relating to the put option, and the liquidity and solvency of Cell C is proven thereafter, then the R100 million deferred purchase price and the interest accrued thereon will be payable to BLT plus the cost of the 40% put option shares that will be transferred to BLM.

Disposal of 3G Mobile

Post year-end 3G Mobile Proprietary Limited (3G) will distribute its shares in Comm Equipment Company (CEC) and 3G's loan account claim against CEC to its shareholder, TPC. The latter will thereafter dispose of 100% of the shares in 3G to DNI for a purchase consideration of R544 million. The above proceeds received will be applied to reduce interest-bearing debt.

Cell C R1.4 billion financial guarantee

On 2 August 2018, Cell C procured R1.4 billion of funding from a consortium of financial institutions for a tenure of 12 months, secured by airtime to the value of R1.75 billion. In the event of default, TPC is required to purchase such inventory from the consortium on a piecemeal basis over a specified period that has been agreed upon. These purchases would be made in lieu of purchases that would have been made from Cell C within that period.

As at 31 May 2019, the above funding declined from R1.4 billion to R1.25 billion as a result of BLT purchasing from the security airtime. Post-year-end, the financial institutions have agreed to extend the repayment date to 30 November 2019. If Cell C is unable to meet this commitment by that date, and no further extension is granted, BLT will be required to purchase R100 million of security airtime in November 2019 and R300 million per month in December 2019, January 2020 and February 2020.

Banking facility

In August 2019, The Prepaid Company concluded an addendum to its facilities agreement with Investec Bank Limited in terms of which the facility was increased by R150 million.

Going concern

The Board of Directors have evaluated the going concern assumption as at 31 May 2019 and considered it to be appropriate in the preparation of these financial statements.

The Prepaid Company's Investec banking facilities, which would have expired on 30 September 2019, have been extended to 29 November 2019 and discussions are in progress for a further extension beyond that date.

As at the date of these financial statements, the renegotiation of these facilities had not yet been completed, and although the directors are of the opinion that the facilities would be extended beyond November 2019, material uncertainty exists should these facilities not be extended. In this event, certain liabilities within the Group would not be settled in the normal course of business.

The directors are confident that the successful completion of the transactions, as detailed in the subsequent events above, will result in a significant reduction in interest-bearing debt and in turn the strengthening of the Group's balance sheet.

10. ACCOUNTING FRAMEWORK

10.1 Basis of preparation

The principal accounting policies applied in the preparation of the Group annual financial statements are in the related notes and are consistent with those adopted in the prior year, unless otherwise specified. Refer to note 10.5.

The Group 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 the 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 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's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group 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 has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing the financial statements.

10.3 Standards, amendments and interpretations not yet effective

At the date of authorisation of these annual financial statements, the following relevant standards, amendments, and interpretations to existing standards were in issue but not yet effective. These will apply to the Group's accounting periods beginning on 1 June 2019 or later periods, and have not been elected to be early adopted by the Group.

Notes to the Group annual financial statements continued

For the year ended 31 May 2019

10. ACCOUNTING FRAMEWORK continued

10.3 Standards, amendments and interpretations not yet effective continued

The salient features of those standards, amendments, and interpretations have been described below.

			Effective date - accounting periods beginning on or after
Standard	Description of change	Management actions and assessed impact	
IFRS 16 - Leases	This IFRS sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ("lessee") and the supplier ("lessor"); ▶ IFRS 16 replaces the previous leases standard, IAS 17 - <i>Leases, and related Interpretations</i>; ▶ IFRS 16 has one model for lessees which will result in almost all leases being included on the statement of financial position. The lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. No significant changes have been included for lessors.	The Group has assessed the estimated impact that the initial application of IFRS 16 will have on its Group income statement, Group statement of financial position and Group statement of cash flows once adopted on 1 June 2019. In preparation for the adoption of IFRS 16 the following actions have been undertaken: ▶ Management has provided formal training programmes relating to IFRS 16 to all employees involved in the supervision of the finance function. ▶ As part of the training programme, a workshop session was held to identify business units where IFRS 16 may have an impact. ▶ Assessment questionnaires were completed for each business unit to identify leasing arrangements of significance to the Group. The results of the work undertaken thus far have indicated that the Group is not a lessee of significance across the majority of its operations. Key leasing arrangements identified thus far include: Leases of office and warehousing space The Group leases office and warehousing space to accommodate the Groups employees and operations. These leases are generally of a longer term (three to five years) with the most significant of which being the lease for the Group's head office and main hub of operations in Sandton. Dependent on the Group's business plan, or to address the need when it arises, the Group does also lease properties for shorter or longer timeframes. Based on the leases identified thus far, the Group currently has approximately 25 existing commitments with external parties to the Group in relation to these leasing arrangements, with an indicative average remaining term of 25 months. The indicative remaining lease commitment for future minimum lease payments for these leases is approximately R143 million. Leases of retail stores The Group, primarily through its WiConnect business, operates retail stores in shopping malls and retail centres all of which are leased from their respective landlords. Based on the leases identified thus far, the Group currently has approximately 69 existing commitments with external parties to the Group in relation to these leasing arrangements, with an indicative average remaining term of 24 months. The indicative remaining lease commitment for future minimum lease payments for these leases is approximately R26 million. Leases of equipment (office and other equipment) The Group primarily purchases equipment utilised by its operations on an outright purchase basis. However, where outright purchase is not financially optimal, operational needs are satisfied with leased equipment. Based on the leases identified thus far, the Group currently has approximately five existing commitments with external parties to the Group in relation to these leasing arrangements, with an indicative average remaining term of 12 months. The indicative remaining lease commitment for future minimum lease payments for these leases is approximately R1 million. The Group does not engage in significant leasing activities as a lessor (where the Group is a lessor, these activities are not believed to be core to the operations of the Group). ▶ The Group is continuing to assess the impact of the accounting changes that will arise under IFRS 16 and cannot yet reasonably quantify the impact; ▶ The Group plans to apply IFRS 16 initially on 1 June 2019, using the modified retrospective approach applying the practical expedients of IFRS 16. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 June 2019, with no restatement of comparative information; and ▶ The Group will elect to recognise the right-of-use assets at an amount equal to the lease liability at 1 June 2019.	1 January 2019

10. ACCOUNTING FRAMEWORK *continued*

10.3 Standards, amendments and interpretations not yet effective *continued*

The following standards/amendments/interpretations are not anticipated to have a material impact on the Group, and are effective for annual periods beginning on 1 June 2019:

Standard(s) Amendment(s) Interpretation(s)	Description of change	Effective date – accounting periods beginning on or after
Annual improvements 2015 – 2017 cycle	The annual improvements project is a collection of amendments to various IFRS standards and is the result of conclusions reached by the IASB on proposals made at its annual improvement project; and the interpretation will not have a material impact on the Group.	1 January 2019
New interpretation – IFRIC 23 – Uncertainty over Income Tax Treatments	▶ This interpretation clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities; ▶ IFRIC 23 specifically clarifies how to incorporate this uncertainty into the measurement of tax as reported in the consolidated financial statements; ▶ IFRIC 23 does not introduce any new disclosures but reinforces the need to comply with existing disclosure requirements about judgements made, assumptions and other estimates used and the potential impact of uncertainties that are not reflected; and ▶ The interpretation will not have a material impact on the Group.	1 January 2019
Amendments to IFRS 3 – Business Combinations	These amendments make it easier for companies to decide whether activities and assets they acquire are a business or merely a group of assets. The amendments: ▶ Confirm that a business must include inputs and a process, and clarified that: (i) the process must be substantive; and (ii) the inputs and process must together significantly contribute to creating outputs; ▶ Narrow the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs; and ▶ Add a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets. The amendments will not have a material impact on the Group.	1 January 2019
Amendments to IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors	The IASB refined its definition of material to make it easier to understand. It is now aligned across IFRS Standards and the Conceptual Framework. The revised definition of material is: ▶ Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity; ▶ The Board has also removed the definition of material omissions or misstatements from IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors; and ▶ The amendments will not have a material impact on the Group.	1 January 2019

Notes to the Group annual financial statements continued

For the year ended 31 May 2019

10. ACCOUNTING FRAMEWORK continued

10.4 Other accounting policies

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 income statement in operating profit.

(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.

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.

Leases

Leases in which a significant portion of the risk 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.

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'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.

10. ACCOUNTING FRAMEWORK *continued*

10.5 Change in accounting policy

10.5.1 IFRS 15 – Revenue from Contracts with Customers

IFRS 15 replaces both IAS 11 and IAS 18 as well as SIC 31, IFRIC 13, IFRIC 15 and IFRIC 18 and establishes a comprehensive framework for recognition of revenue from contracts with customers. Revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires a certain level of judgement.

On application of IFRS 15, the following material changes and considerations have been made:

Revenue category	Nature of material considerations and changes in accounting policy
Prepaid and postpaid SIM cards	The Group earns activation and ongoing revenue on starter packs that have been distributed to prepaid customers. Under IFRS 15, the recognition of ongoing revenue requires a certain level of judgement (refer to critical accounting judgements and assumptions below) and the Group has concluded that the treatment remains unchanged as under the previous standards. However, the initial sale of starter packs is now deemed to have a financing element under IFRS 15. As such, less revenue is recognised at the point of sale of starter packs taking into account the time value of money. The unwinding of the corresponding trade receivables balance is recognised in revenue, resulting in a reduction of net profit after tax of R10.1 million.
Sale of handsets, tablets and other devices	Revenue relating to the sale of handsets under certain contracts that were previously recognised as principal are now accounted for as agent. This is due to the change in considerations for the recognition of principal versus agent under IFRS 15, specifically the removal of the principal indicator that the Group bears credit risk for the amount receivable from the customer. The Group has applied its judgement when considering the remaining indicators and determined that it acts as an agent in these specific contracts. In general, however, the sale of handsets, tablets and devices remain as principal under IFRS 15 as they were historically under IAS 18. The effect of this change due to IFRS 15 on the current year Group statement of comprehensive income is only a reclassification between revenue and changes in inventories of finished goods to the value of R1.3 billion. The gross profit effect of this change is nil.
Contract revenue (included in share of losses from Cell C)	Cell C's incremental cost of obtaining a contract with a customer, previously expensed under IAS 18, is recognised as an asset under IFRS 15. The effect on the share of losses in the current period as a result of this change in accounting policy is offset by the impairment of the investment in Cell C to zero. The resulting effect on net profit after tax is immaterial.
Revenue category	Critical accounting judgements and assumptions
Prepaid and postpaid SIM cards – ongoing revenue	The Group earns ongoing revenue on starter packs that have been distributed to prepaid customers. The Group is entitled to ongoing revenue on all future prepaid airtime purchases that a signed-up prepaid customer makes, even if the subscriber does not top up at that Group in the future. Ongoing revenue earned is variable in nature as the Group's entitlement to these amounts is dependent on the future spending patterns of the prepaid customers, and therefore contingent on a future event occurring or not occurring. IFRS 15 requires an entity to estimate the amount of variable consideration it will be entitled to for the contracts it has entered into with its customers and include this in the transaction price at contract inception, to the extent the variable consideration is not constrained. The Group has concluded that the ongoing revenue is fully constrained at the individual contract level due to the high variability in behaviour of the individual customers, including: ▶ the period over which prepaid customers remain on the same SIM card (this can range from one day to a number of years); and ▶ the spending patterns of individual customers, which is also highly variable. In addition, because the terms of the ongoing revenue structure with the telecommunication companies are regularly up for negotiation, the Group is not able to predict the likelihood or magnitude of a revenue reversal. The Group's policy is therefore only to recognise the variable consideration as revenue as and when it is received because it is only at this point that it is highly probable that a significant reversal in revenue for that contract will not occur in the future.

Notes to the Group annual financial statements continued

For the year ended 31 May 2019

10. ACCOUNTING FRAMEWORK continued

10.5 Change in accounting policy continued

10.5.1 IFRS 15 – Revenue from Contracts with Customers continued

IFRS 15 transition

The Group has applied IFRS 15 – *Revenue from Contracts with Customers* using the modified retrospective approach by recognising the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of equity at 1 June 2018. Therefore the comparative information on the Group statement of financial position and Group statement of comprehensive income has not been restated for the adoption of this new standard and continues to be reported under the previously applied standards.

In accordance with the requirements of applying the modified retrospective approach under IFRS 15, the current financial information has been presented below with adjustments to indicate the Group results had IFRS 15 not been adopted.

Group income statement For the year ended 31 May 2019	2019 under previously applied standards R'000	IFRS 15 adjustments R'000	2019 R'000
Revenue	27 157 300	(1 287 867)	25 869 433
Other income	120 914	—	120 914
Changes in inventories of finished goods	(24 342 726)	1 304 825	(23 037 901)
Finance costs incurred in the generation of revenue	(185 411)	—	(185 411)
Employee compensation and benefit expense	(594 183)	—	(594 183)
Depreciation, amortisation and other impairment charges	(253 016)	—	(253 016)
Impairment and fair value losses on financial assets	(1 212 089)	—	(1 212 089)
Other expenses	(499 174)	1 091	(498 083)
Operating profit	191 615	18 049	209 664
Finance costs	(247 115)	1 158	(245 957)
Finance income	102 877	(3 172)	99 705
Impairments on associates and joint venture	(2 436 468)	(232 608)	(2 669 076)
Share of losses from associates and joint ventures	(3 886 638)	185 228	(3 701 410)
Loss before taxation	(6 275 729)	(31 345)	(6 307 074)
Taxation	(310 632)	(4 490)	(315 122)
(Loss)/profit for the year	(6 586 361)	(35 835)	(6 622 196)
(Loss)/profit for the year attributable to:			
Equity holders of the parent	(6 610 548)	(35 835)	(6 646 383)
Non-controlling interest	24 187	—	24 187
Earnings per share for loss attributable to:			
Equity holders (cents)			
- Basic	(123.07)	(0.04)	(123.03)
- Diluted ¹			

¹ There are no dilutive instruments in the current year.

10. ACCOUNTING FRAMEWORK continued

10.5 Change in accounting policy continued

10.5.1 IFRS 15 – Revenue from Contracts with Customers continued

Group statement of financial position As at	31 May 2019 under previously applied standards R'000	IFRS 15 adjustments R'000	31 May 2019 R'000
ASSETS			
Non-current assets	3 475 242	1 828	3 477 070
Property, plant and equipment	237 657	—	237 657
Intangible assets	1 083 328	—	1 083 328
Goodwill	1 234 995	—	1 234 995
Investments in and loans to associates and joint ventures	218 842	—	218 842
Investments in and loans to venture capital associates and joint ventures	—	—	—
Loans receivable	41 760	—	41 760
Starter pack assets	—	—	—
Trade and other receivables	—	—	—
Advances to customers	584 440	—	584 440
Deferred taxation assets	74 220	1 828	76 048
Current assets	8 643 895	(39 593)	8 604 302
Starter pack assets	—	—	—
Loans to associate	—	—	—
Inventories	1 514 649	—	1 514 649
Loans receivable	190 769	—	190 769
Trade and other receivables	4 296 859	(39 593)	4 257 266
Advances to customers	1 032 657	—	1 032 657
Financial asset at fair value through profit and loss	204 739	—	204 739
Current tax assets	18 626	—	18 626
Cash and cash equivalents	1 385 596	—	1 385 596
Total assets	12 119 137	(37 765)	12 081 372
EQUITY AND LIABILITIES			
Capital and reserves	2 517 679	(26 117)	2 491 562
Issued share capital and premium	7 599 016	—	7 599 016
Other reserves	(2 824 740)	—	(2 824 740)
Retained earnings	(2 378 914)	(26 117)	(2 405 031)
Total ordinary shareholders' equity	2 395 362	(26 117)	2 369 245
Non-controlling interest	122 317	—	122 317
Non-current liabilities	1 960 248	(8 328)	1 951 920
Deferred taxation liabilities	244 728	(8 328)	236 400
Borrowings	1 715 520	—	1 715 520
Current liabilities	7 641 210	(3 320)	7 637 890
Trade and other payables	5 374 706	(3 320)	5 371 386
Financial guarantee contracts	243 492	—	243 492
Provisions	24 947	—	24 947
Financial liabilities at fair value through profit and loss	460 354	—	460 354
Current tax liabilities	9 104	—	9 104
Borrowings	1 520 764	—	1 520 764
Bank overdraft	7 843	—	7 843
Total equity and liabilities	12 119 137	(37 765)	12 081 372

Notes to the Group annual financial statements continued

For the year ended 31 May 2019

10. ACCOUNTING FRAMEWORK continued

10.5 Change in accounting policy continued

10.5.1 IFRS 15 – Revenue from Contracts with Customers continued

IFRS 15
adjustments
R'000

Adjustments to retained earnings

Retained earnings as at 1 June 2018	(9 717)
Profit for the year attributable to equity holders of the parent	35 835
Retained earnings as at 31 May 2019	26 118

10.5.2 IFRS 9 – Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 – *Financial Instruments: Recognition and Measurement*.

Classification and measurement of financial assets

The adoption of IFRS 9 has not had a material impact on the Group's accounting policies related to the classification and measurement of financial assets, financial liabilities and derivative financial instruments. The following table demonstrates the measurement category of financial instruments under IAS 39 and IFRS 9:

	IAS 39	IFRS 9
Trade and other receivables*	Loans and receivables	Amortised cost
Cash and cash equivalents	Loans and receivables	Amortised cost
Loans to associates and joint ventures	Loans and receivables	Amortised cost
Loans receivable	Loans and receivables	Amortised cost
Advances to customers	Loans and receivables	Amortised cost
Financial assets at fair value through profit and loss	Fair value through profit and loss	Fair value through profit and loss
Interest-bearing borrowings	Amortised cost	Amortised cost
Non-interest-bearing borrowings	Amortised cost	Amortised cost
Trade and other payables	Amortised cost	Amortised cost
Put option liability	Fair value through profit and loss	Fair value through profit and loss
Contingent consideration	Amortised cost	Amortised cost
Financial guarantee contracts	Not applicable	Amortised cost
Bank overdraft	Amortised cost	Amortised cost
Financial liabilities at fair value through profit and loss	Fair value through profit and loss	Fair value through profit and loss

Impairment of financial assets

IFRS 9 replaces the “incurred loss” model in IAS 39 with an “expected credit loss” (ECL) model. The Group has four types of financial assets that are subject to the new ECL model:

- ▶ trade receivables
- ▶ loans receivable and loans to associates and joint ventures
- ▶ guarantees
- ▶ cash and cash equivalents (immaterial impairment loss identified)

10. ACCOUNTING FRAMEWORK continued

10.5 Change in accounting policy continued

10.5.2 IFRS 9 – *Financial Instruments* continued

Impairment of financial assets continued

The Group was required to revise its impairment methodology under IFRS 9 for each of these classes of assets. The impact of the change in impairment methodology on the Group's retained earnings is disclosed below.

Trade receivables

The Group applies the IFRS 9 simplified approach to measuring ECL which uses a lifetime expected loss allowance for all trade receivables. ECLs are calculated by applying a loss ratio to the aged balance of trade receivables at each reporting date. The loss ratio is calculated according to the ageing/payment profile of sales by applying historic/proxy write-offs to the payment profile of the sales population. Trade receivable balances have been grouped so that the ECL calculation is performed on groups of receivables with similar risk characteristics and ability to pay. Similarly, the sales population selected to determine the ageing/payment profile of the sales is representative of the entire population and in line with future payment expectations. The historic loss ratio is then adjusted for forward looking information to determine the ECL for the portfolio of trade receivables at the reporting period.

Loans receivable, loans to associates and joint ventures, and guarantees

The Group applies the IFRS 9 general approach to measuring expected credit losses which uses a 12-month expected loss allowance for all loans receivables, loans to associates and joint ventures, and guarantees individually. ECLs are calculated by applying a loss ratio to the balance of each loan and guarantee at each reporting date. The loss ratio for loans is calculated according to the ageing/payment profile of loans by applying historic write-offs to the payment profile of the loan population. The loss ratio for guarantees is calculated according to the past history of draw downs on the financial guarantee contract population. The historic loss ratio is then adjusted for forward looking information to determine the ECL for each loan and guarantee at the reporting period to the extent that there is a strong correlation between the forward looking information and the ECL. To calculate an ECL, management allocates a risk rating to each loan and guarantee. The risk rating is assigned an average cumulative default rate, based on management assessing market-related default rates for emerging markets. This rate is added to the historical loss ratio to determine the ECL of the relevant loan or guarantee.

Critical accounting judgements and assumptions

The ECL for financial assets is based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the input to the impairment calculation, based on the Group's past history, existing market conditions, as well as forward looking estimates at the end of each reporting period.

IFRS 9 transition

The Group has applied IFRS 9 – *Financial Instruments* using the modified retrospective approach, by recognising the cumulative effect of initially applying IFRS 9 as an adjustment to the opening balance of equity at 1 June 2018. Therefore the comparative information on the Group statement of financial position and Group statement of comprehensive income has not been restated for the adoption of these new standards and continues to be reported under the previously applied standards.

In accordance with the requirements of applying the modified retrospective approach under IFRS 9, the Group statement of financial position as at 31 May 2018 has been presented below with the changes in the carrying amounts on 1 June 2018 arising from the change in measurement attribute on transition to IFRS 9.

Notes to the Group annual financial statements continued

For the year ended 31 May 2019

10. ACCOUNTING FRAMEWORK continued

10.5 Change in accounting policy continued

10.5.2 IFRS 9 Financial Instruments continued

Group statement of financial position As at	Restated* 31 May 2018 R'000	IFRS 9 adjustments R'000	1 June 2018 R'000
ASSETS			
Non-current assets	9 412 758	(35 846)	9 376 912
Property, plant and equipment	137 120	—	137 120
Intangible assets	1 076 871	—	1 076 871
Goodwill	1 036 243	—	1 036 243
Investments in and loans to associates and joint ventures	6 684 585	(45 283)	6 639 302
Loans receivable	53 270	—	53 270
Starter pack assets	—	—	—
Trade and other receivables	22 757	—	22 757
Advances to customers	356 689	—	356 689
Deferred taxation assets	45 223	9 437	54 660
Current assets	8 526 636	(42 450)	8 484 186
Starter pack assets	—	—	—
Loans to associate	1 029 626	—	1 029 626
Inventories	597 946	—	597 946
Loans receivable	207 799	(8 328)	199 471
Trade and other receivables	4 292 970	(32 876)	4 260 094
Advances to customers	1 238 321	(1 246)	1 237 075
Financial asset at fair value through profit and loss	168 144	—	168 144
Current tax assets	43 942	—	43 942
Cash and cash equivalents	947 888	—	947 888
Total assets	17 939 394	(78 296)	17 861 098
EQUITY AND LIABILITIES			
Capital and reserves	9 515 085	(97 325)	9 417 760
Issued share capital and premium	7 844 847	—	7 844 847
Other reserves	(2 814 202)	—	(2 814 202)
Retained earnings	4 327 523	(95 888)	4 231 635
Total ordinary shareholders' equity	9 358 168	(95 888)	9 262 280
Non-controlling interest	156 917	(1 437)	155 480
Non-current liabilities	1 743 240	—	1 743 240
Deferred taxation liabilities	229 100	—	229 100
Borrowings	1 514 140	—	1 514 140
Current liabilities	6 681 069	19 029	6 700 098
Trade and other payables	4 990 798	19 029	5 009 827
Provisions	39 628	—	39 628
Financial liabilities at fair value through profit and loss	143 307	—	143 307
Current tax liabilities	50 368	—	50 368
Borrowings	1 456 968	—	1 456 968
Total equity and liabilities	17 939 394	(78 296)	17 861 098

* As a result of the prior year errors, the Group has restated their comparative financial information. Refer to note 11 for details.

11. PRIOR YEAR ERRORS

Venture capital accounting to equity accounting

As from 30 November 2016, the Group applied the exemption available in IAS 28 – *Investments in Associates and Joint Ventures* to account for the investment in Oxigen Services India, Oxigen Online and 2DFine Holdings Mauritius as venture capital investments. Therefore, the investment was 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. Any changes in the fair value would have been recognised in the Group income statement.

This accounting treatment was highly judgemental therefore the Group included detailed disclosure on the critical judgement it had applied.

In June 2018, the Group received notification from the JSE proactive monitoring panel stating that they did not agree with the exemption we had applied in IAS 28. This resulted in a protracted engagement with the JSE to determine the appropriate accounting treatment. After lengthy discussions with the JSE, including the JSE consulting with the Financial Reporting Investigation Panel, the JSE concluded that the Group should not have applied venture capital accounting.

The Group has therefore agreed to not apply the exemption available under IAS 28 – *Investments in Associates and Joint Ventures* to the investment in Oxigen Services India, Oxigen Online and 2DFine Holdings and now account for these associates and joint venture using equity accounting principles.

Revenue – principal versus agent

The Group earns subscription revenue through the provision of content, products and services to customers. During the current year it was determined that certain contracts of this nature that had been accounted for as principal in the prior period should in fact be accounted for as agent. The effect of this error is an equal decrease in revenue and changes in inventories of finished goods. There is no effect on operating profit or net profit after tax.

Put option liability classification

The Airvantage Proprietary Limited put option is carried at fair value through profit and loss. In the prior year this was incorrectly classified as trade and other payables. Whilst the measurement and disclosures complied with IFRS 7 and IAS 39, the classification on the face of the Group statement of financial position was incorrect. This has been rectified in the current year and is now correctly included in the line item “Financial liabilities at fair value through profit and loss”. There is no effect on the Group income statement. The amount reclassified is R98 million.

These errors have been corrected by restating each of the affected financial statement line items in the prior periods as follows:

Effect on Group statement of financial position (extract)	31 May 2018 (as previously reported) R'000	31 May 2018 (restated) R'000	Difference R'000	31 May 2017 (as previously reported) R'000	1 June 2017 (restated) R'000	Difference R'000
Investment in and loans to associates and joint ventures	6 398 305	6 684 584	286 279	315 833	731 788	415 955
Investment in and loans to venture capital associates and joint ventures	277 835	—	(277 835)	544 165	—	(544 165)
Effect on assets			8 444			(128 210)
Retained earnings	4 283 854	4 327 523	43 669	3 640 034	3 555 242	(84 792)
Foreign currency translation reserve	76 841	41 615	(35 226)	99 215	55 797	(43 418)
Effect on reserves			8 443			(128 210)
Non-current trade and other payables	2 550	—	2 500	—	—	—
Current trade and other payables	5 086 196	4 990 799	95 397	—	—	—
Financial liabilities at fair value through profit and loss	45 360	143 307	97 947	—	—	—
Effect on liabilities			—			—

Notes to the Group annual financial statements continued

For the year ended 31 May 2019

11. PRIOR YEAR ERRORS continued

Put option liability classification continued

Effect on Group income statement (extract)	31 May 2018 (as previously reported) R'000	31 May 2018 (restated) R'000	Difference R'000	31 May 2017 (as previously reported) R'000	1 June 2017 (restated) R'000	Difference R'000
Revenue	26 800 265	26 734 249	(66 016)			
Changes in inventories of finished goods	(24 441 772)	(24 375 756)	66 016			
(Loss)/gain on associates measured at fair value	(173 645)	—	173 645	160 200	—	(160 200)
Share of gains/(losses) from associates and joint ventures	565 812	520 628	(45 184)	(164 941)	(89 533)	75 408
Net profit for the year attributable to equity holders of the parent	993 624	1 122 085	128 461	781 254	696 462	(84 792)
EPS	116.12	131.13	15.01	114.13	101.75	(12.38)
Diluted EPS	108.10	123.03	14.93	113.17	100.89	(12.28)
HEPS	115.42	130.44	15.02	114.19	101.80	(12.39)
Diluted HEPS	107.41	122.34	14.93	113.22	100.94	(12.28)
Core HEPS	120.61	135.62	15.01	116.24	103.85	(12.39)

12. 2018 ACCOUNTING POLICIES

Amendments were made to IFRS 15 – *Revenue from Contracts with Customers* and IFRS 9 – *Financial Instruments*. Both statements are effective for accounting periods beginning on or after 1 January 2018 and adopted by BLT in the current financial year ended 31 May 2019.

We have adopted these standards as allowed in terms of the modified retrospective approach, and therefore have not restated the comparatives.

The prior year comparative figures are presented under the original accounting policies as were applicable at the time of disclosure. The relevant notes below were included in the prior year financial statements, and are provided again to give clarity on the basis of preparation for the comparative figures.

12.1 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;
- ♦ the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- ♦ the amount of revenue, and associated costs incurred or to be incurred, can be measured reliably;
- ♦ 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

Sale of prepaid airtime and data represents the majority of Group revenue. Prepaid airtime is either physical or virtual. Physical airtime is sold in bulk to customers (who themselves are generally distributors) as and when they place orders with Blue Label. Customers will either collect the physical airtime stock at Blue Label depots or it will be delivered via courier to them. Virtual airtime is delivered to a customer in the form of a stock file via SFTP. The stock file contains the same information delivered to Blue Label by the mobile networks, being PIN numbers, product codes, serial numbers and expiry dates.

12. 2018 ACCOUNTING POLICIES continued

12.1 Revenue continued

Revenue recognition continued

(a) Prepaid airtime, data and related revenue continued

On receipt of a customer order, data vouchers are delivered in bulk in the form of a stock file via SFTP. The stock file contains the same information delivered to us by the networks, being PIN numbers, product codes, serial numbers and expiry dates.

For physical airtime, virtual airtime and data vouchers, risks and rewards transfer to the customer on delivery of the physical stock or stock files to them. Blue Label acts as a principal and as such recognises the gross receipt as revenue.

In addition to the above, Blue Label generates PINless revenue on prepaid airtime. Airtime is requested by an end user via one of our customer's integrated systems, upon which we automatically notify the applicable network to increase the relevant end user balance. Blue Label does not take control of PINless stock at any point.

As Blue Label does not take control of stock relating to PINless revenue, risks and rewards transfer from the network directly to the end user when its balance is increased. Revenue is recognised for the agency service at this point. In this scenario, Blue Label acts as an agent as it effectively collects amounts on behalf of the networks and therefore only recognises revenue to the extent of the commission earned.

Incentives relating to these sales, based on contractual criteria, are recognised only once the associated criteria have been met.

(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 mobile 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 mobile 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

The Group sells prepaid electricity to customers on behalf of the utility suppliers. Commissions on the sale of electricity are recognised by the Group when the end customer purchases the electricity voucher, as should the end user choose not to redeem their voucher the Group will still realise the economic benefit of the sale. 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

Included in this category is revenue earned from the sale of handsets, tablets and devices. Revenue from the sale of handsets, tablets and devices is recognised as a sale of a goods when the device is transferred to a customer. For this category of revenue the Group acts as principal.

(g) Finance revenue

Where the core business of a Group company is to provide finance to its customers, interest earned on the financing arrangement is recognised as revenue. Revenue from a financing arrangement is recognised over the term of the loan at the effective interest rate. For this category of revenue the Group acts as principal.

Notes to the Group annual financial statements continued

For the year ended 31 May 2019

12. 2018 ACCOUNTING POLICIES continued

12.1 Revenue continued

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.

12.2 Financial instruments and financial risks

Financial instruments carried on the statement of financial position include:

Financial assets

- ◆ Loans receivable
- ◆ Trade and other receivables
- ◆ Cash and cash equivalents
- ◆ Financial assets at fair value through profit or loss
- ◆ Starter pack assets
- ◆ Bonds

Financial liabilities

- ◆ Borrowings
- ◆ Trade and other payables
- ◆ Contingent purchase consideration
- ◆ Put option liability
- ◆ Liquidity support

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 or 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 or loss • Put option liability • Bonds and liquidity support	Fair value, with gains or losses recognised in profit or loss.
Financial liabilities • Borrowings • Trade and other payables • Put option liability • Contingent purchase consideration	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.

12. 2018 ACCOUNTING POLICIES continued

12.2 Financial instruments and financial risks continued

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.

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.

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, cash and cash equivalents and financial assets at fair value through profit or loss.

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.

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. Unsecured loans are advanced to parties with which the Group has a relationship in that they have dealt with them over numerous years, with no history of impairments in the past. All potential loans are assessed by relevant management in terms of the Board of Directors' delegation of authority, and need to be approved by them before they can be advanced. Authorised management ensures that it has a thorough understanding of the counterparty's financial position, their going concern capability and ability to repay the loan, before loans are advanced to counterparties. In certain cases, the Group has access to ongoing revenues which are payable to the counterparties and this reduces the credit risk of the borrower to the Group.

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.

Notes to the Group annual financial statements continued

For the year ended 31 May 2019

12. 2018 ACCOUNTING POLICIES continued

12.2 Financial instruments and financial risks continued

12.2.1 Financial assets

(a) 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.

(b) 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.

(c) Cash and cash equivalents

Cash and cash equivalents include cash on hand and deposits held on call with banks.

12.2.2 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.

(a) 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.

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).

Put option liability

Put option liabilities represent contracts that impose an obligation on the Group to purchase the shares of a subsidiary for cash or another financial asset. Put option liabilities are initially raised from the transaction with non-controlling interest reserve in equity at the present value of the expected redemption amount payable. Subsequent revisions to the expected redemption amount payable as well as the unwinding of the discount related to the measurement of the present value of the put option liability, are recognised in the income statement.

Where a put option liability expires unexercised or is cancelled, the carrying value of the financial liability is released to the transaction with non-controlling interest reserve in equity. The Group recognises the non-controlling interest over which a put option exists at acquisition date. Put option liabilities are presented within trade and other payables in the Group statement of financial position.

(b) 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.

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.

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.

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 translations. 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 2018, 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.

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.

Annexure to the Group financial statements

For the year ended 31 May 2019

SHAREHOLDER SPREAD

	Number	%	Shares	%
1 – 1000 shares	2 485	46.27	744 190	0.08
1001 – 10000 shares	1 862	34.64	7 179 111	0.79
10001 – 100000 shares	666	12.39	21 588 167	2.36
100001 – 1000000 shares	252	4.69	81 728 490	8.95
1000001 shares and over	108	2.01	802 415 915	87.82
Total	5 373	100.00	913 655 873	100

DISTRIBUTION OF SHAREHOLDERS

	Number	%	Shares	%
Private investor	181	3.37	247 799 225	27.12
Pension funds	114	2.12	96 850 510	10.60
Unit trusts	124	2.31	246 676 798	27.00
Insurance companies	19	0.35	16 553 776	1.81
Trading position	15	0.28	57 116 199	6.25
Hedge fund	13	0.24	58 901 958	6.45
Exchange-traded fund	7	0.13	8 006 555	0.88
Custodians	6	0.11	1 536 428	0.17
University	4	0.07	2 334 178	0.26
Charity	3	0.06	440 395	0.05
Medical aid scheme	3	0.06	1 322 849	0.14
Corporate holding	2	0.04	109 541 758	11.99
Sovereign wealth	2	0.04	3 173 881	0.35
Foreign government	1	0.02	222 494	0.02
Local authority	1	0.02	126 223	0.01
Remainder	4 878	90.78	63 052 646	6.90
Total	5 373	100	913 655 873	100

PUBLIC/NON-PUBLIC SHAREHOLDERS

	Number	%	Shares	%
Non-public shareholders	16	0.30	296 708 915	32.47
Directors and associates	14	0.26	195 970 019	21.44
Strategic holdings (more than 10%)	1	0.02	100 000 000	10.95
Treasury stock	1	0.02	738 896	0.08
Public shareholders	5 357	99.70	616 946 958	67.53
Total	5 373	100	913 655 873	100

BENEFICIAL SHAREHOLDERS HOLDING 2% OR MORE

	Shares	%
Shotput Investments Proprietary Limited	100 000 000	10.95
Levy B M	77 674 937	8.50
Levy M S	70 267 529	7.69
Allan Gray Balanced Fund	47 147 823	5.16
Government Employees Pension Fund (PIC)	31 990 915	3.50
Acanthin	31 809 258	3.48
ERZ Telecoms CC	26 713 538	2.92
Sanlam Capital Markets	19 699 042	2.16
Allan Gray Equity Fund	19 000 477	2.08
Total	424 303 519	46.44

SHAREHOLDERS HOLDING 2% OR MORE

	Shares	%
Allan Gray Proprietary Limited	112 110 539	12.27
Shotput Investments Proprietary Limited*	100 000 000	10.95
Levy B M	84 947 714	9.30
Levy M S	77 540 306	8.49
Old Mutual Limited	36 038 795	3.95
Sanlam Investment Management Proprietary Limited	33 538 900	3.67
Acanthin	31 809 258	3.48
ERZ Telecoms CC	26 713 538	2.92
Equinox Partners LP	24 169 912	2.65
The Vanguard Group Inc	20 937 394	2.29
Sanlam Capital Markets	20 399 042	2.23
Total	568 205 398	62.20

* 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.

Administration

Directors

LM Nestadt (Chairman)*, BM Levy, MS Levy, K Ellerine**, GD Harlow*, JS Mthimunye*, DA Suntup, J Vilakazi*
(*Independent non-executive) (**Non-executive)

Company Secretary

J van Eden

Sponsor

Investec Bank Limited

Auditors

PricewaterhouseCoopers Inc.

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

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Contacts: +27 11 523 3000/info@blts.co.za/www.bluelabeltelecoms.co.za

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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