BLUE LABEL
TELECOMS

CONNECTING OUR WORLD TO YOURS

Audited results for the year ended 31 May 2019

Highlights

Revenue of
R25.9
billion*

Increase in gross profit of 16% to
R2.65
billion

Increase in gross profit margin from 8.54% to
10.23%

** On inclusion of the gross amount generated on "PINless top-ups", prepaid electricity and ticketing, the effective increase equated to 10% from R52.7 billion to R57.8 billion*

Commentary

Core headline earnings for the year ended 31 May 2019 equated to a negative 304.77 cents per share. Although the core businesses of the Blue Label Group continued to generate profit, the predominant negative contributions to Group earnings were attributable to:

- Cell C's trading losses, impairment of certain of its property, plant and equipment, the impact of the de-recognition of its deferred tax asset and the impairment of Blue Label's total investment in Cell C;
- Fair value downward adjustments of the exposure relating to SPV1 and SPV2 pertaining to the initial recapitalisation of Cell C (the structure of SPV1 and SPV2 as detailed in the trading statement published on SENS on 22 February 2019) and the Glocell loan;
- An impairment of Blue Label's total investment in the Oxigen India group, including 2Dfine Holdings Mauritius, (collectively, "OSI") as well as providing for loan impairments and guarantees payable therein;
- Partial impairments of goodwill and an investment in a joint venture.

BLUE LABEL TELECOMS

	Group May 2019 R'000	Cell C May 2019 R'000	Fair value adjustments May 2019 R'000	OSI May 2019 R'000	Impair-ments May 2019 R'000	Remaining entities May 2019 R'000
Revenue	**25 869 433**	–	–	–	–	25 869 433
Gross profit	**2 646 121**	–	–	–	–	2 646 121
EBITDA	**462 680**	–	(873 877)	(193 364)	(124 401)	1 654 322
Impairments on associates and joint venture	**(2 669 076)**	(2 521 152)	–	(118 412)	(29 512)	–
Share of (losses)/profits from associates and joint ventures	**(3 701 410)**	(3 609 495)	–	(86 637)	–	(5 278)
– Cell C	**(3 609 495)**	(3 609 495)	–	–	–	–
– Oxigen Services India	**(86 637)**	–	–	(86 637)	–	–
– Blue Label Mexico	**(24 096)**	–	–	–	–	(24 096)
– Other	**18 818**	–	–	–	–	18 818
Net (loss)/profit	**(6 646 384)**	(6 130 647)	(837 831)	(398 412)	(146 535)	867 041
Core net (loss)/profit	**(6 575 899)**	(6 120 271)	(837 831)	(398 412)	(146 535)	927 150
Core headline earnings	**(2 783 156)**	(2 616 427)	(837 831)	(232 826)	–	903 928
Gross profit margin	**10.23%**					10.23%
EBITDA margin	**1.79%**					6.39%
Weighted average shares ('000)	**913 208**					913 208
EPS (cents)	**(727.81)**					94.94
HEPS (cents)	**(312.49)**					92.40
Core HEPS (cents)	**(304.77)**					98.98

Headline loss of

312.49

cents per share

Core headline loss of

304.77

cents per share**

** *On exclusion of negative contributions by Cell C, Oxigen Services India group, fair value downward adjustments and impairments, core headline earnings per share from the balance of the entities within the Blue Label Group equated to 98.98 cents per share*

On exclusion of the above negative contributions, core headline earnings amounted to R904 million compared to R716 million in the prior year, equating to growth of 26%.

After taking into account the increase in the weighted average number of shares in issue, core headline earnings per share from the balance of the entities within the Blue Label Group increased by 18% from 83.65 cents to 98.98 cents for the year ended 31 May 2019, as detailed in the table below.

It is evident that the investment in Cell C had a significant negative impact on Group earnings. However, the contemplated national roaming agreement will result in substantial cost savings for Cell C by reducing network and capital expenditure when implemented. These savings are expected to be further enhanced on completion of an intended Cell C capital restructure.

Group May 2018 R'000	Cell C May 2018 R'000	Fair value adjustments May 2018 R'000	OSI May 2018 R'000	Remaining entities May 2018 R'000	Growth remaining entities R'000	Growth remaining entities %
26 734 249	–	–	–	26 734 249	(864 816)	(3%)
2 282 093	–	–	–	2 282 093	364 028	16%
1 340 153	–	5 121	–	1 335 032	319 290	24%
–	–	–	–	–	–	
520 628	562 568	–	(45 184)	3 244	(8 522)	(263%)
562 568	562 568	–	–	–		
(45 184)	–	–	(45 184)	–		
(21 900)	–	–	–	(21 900)	(2 196)	(10%)
25 144	–	–	–	25 144	(6 326)	(25%)
1 122 085	562 567	3 687	(128 480)	684 311	182 730	27%
1 166 430	571 214	3 687	(128 480)	720 009	207 141	29%
1 160 477	569 474	3 687	(128 480)	715 796	188 132	26%
8.54%				8.54%		
5.01%				4.99%		
855 687				855 687		
131.13				79.97	14.97	19%
130.44				79.48	12.92	16%
135.62				83.65	15.33	18%

Group revenue declined by 3% to R25.9 billion. As only the gross profit earned on "PINless top-ups", prepaid electricity and ticketing are accounted for, on imputing the gross revenue generated thereon, the effective growth in revenue equated to 10% from R52.6 billion to R57.8 billion.

Gross profit increased by 16% from R2.28 billion to R2.65 billion, underpinned by an increase in margins from 8.52% to 10.23%.

The decline in EBITDA was attributable to fair value downward adjustments of R874 million relating to SPV1, SPV2 and the Glocell loan, guarantees payable recognised on behalf of OSI for R62 million and loan impairments therein of R161 million, offset by sureties receivable of R30 million on the latter amount. Additional declines related to partial impairments of goodwill in both Via Media and Blue Label Connect of R74 million and R50 million respectively. On exclusion of these negative contributions, EBITDA generated by the Group increased by 24% from R1.34 billion to R1.65 billion.

This was attributable to continued positive contributions by the remaining entities in the Group, of which the predominant companies include:

- The Prepaid Company, the leading distributor of prepaid airtime and data for all networks in South Africa;
- Blue Label Distribution which provides electronic products and services through its extensive distribution channels that encompass banks, retailers, spaza and informal shops and petroleum forecourts;
- Comm Equipment Company, a financier of the mobile handset element of postpaid contracts;
- 3G Mobile, a distributor of mobile handsets to the retail market;
- Ticketpro which offers customers access to transport services, sporting events and entertainment, all of which generate additional footprint at the vast points of presence within the Group;
- Cigicell which processes prepaid electricity and facilitates collections for multiple municipalities in South Africa;
- Blue Label Connect which distributes hybrid top-up airtime and data contracts on behalf of all the major networks;
- Transaction Junction, a payment service provider servicing major retailers, financial institutions and petroleum companies among others;
- Blue Label Data Solutions, a market leader in consumer data, big data, validation and lead generation; and
- United Call Centre Solutions, an outbound call centre selling products and services directly to consumers.

Earnings per share and headline earnings per share decreased from 131.13 and 130.44 cents per share to negative 727.81 and negative 312.49 cents per share respectively.

SEGMENTAL REPORT

Africa Distribution

	May 2019 R'000	Cell C May 2019 R'000	Fair value adjustments May 2019 R'000	Impair-ments May 2019 R'000	Remaining entities May 2019 R'000
Revenue	**25 364 068**	–	–	–	25 364 068
Gross profit	**2 353 087**	–	–	–	2 353 087
EBITDA	**654 886**	–	(873 877)	(50 398)	1 579 161
Impairments on associates and joint venture	**(2 521 152)**	(2 521 152)	–	–	–
Share of (losses)/profits from associates and joint ventures	**(3 612 076)**	(3 609 495)	–	–	(2 581)
– Cell C	**(3 609 495)**	(3 609 495)	–	–	–
– 3G Mobile	**(95)**	–	–	–	(95)
– Other	**(2 486)**	–	–	–	(2 486)
Net (loss)/profit	**(6 127 508)**	(6 130 647)	(837 831)	(50 398)	891 368
Core net (loss)/profit	**(6 066 357)**	(6 120 271)	(837 831)	(50 398)	942 143
Core headline earnings	**(2 535 505)**	(2 616 427)	(837 831)	–	918 753
Gross profit margin	**9.28%**				9.28%
EBITDA margin	**2.58%**				6.23%

The above table reflects the negative contribution by Cell C, the fair value downward adjustments relating to the exposure in SPV1 and SPV2 and the Glocell loan, the partial impairment of Blue Label Connect's goodwill as well as the positive contribution by the remaining entities within this segment. These entities include the 3G Mobile group, Airvantage and the core distribution companies, generating a combined contribution of R919 million to core headline earnings.

Restated* May 2018 R'000	Cell C May 2018 R'000	Fair value adjustments May 2018 R'000	Remaining entities May 2018 R'000	Growth remaining entities R'000	Growth remaining entities %
26 245 206	–	–	26 245 206	(881 138)	(3%)
2 014 169	–	–	2 014 169	338 918	17%
1 344 824	–	5 121	1 339 703	239 458	18%
–	–	–	–	–	
583 122	562 567	–	20 555	(23 136)	(113%)
562 567	562 567	–	–	–	
31 155	–	–	31 155	(31 250)	
(10 600)	–	–	(10 600)	8 114	(77%)
1 344 641	562 567	3 687	778 387	112 981	15%
1 385 494	571 214	3 687	810 593	131 550	16%
1 384 739	569 474	3 687	811 578	107 175	13%
7.67%			7.67%		
5.12%			5.10%		

** As a result of the prior year errors the Group has restated their comparative financial information.*

Cell C

For the 12 months ended May 2019, Cell C incurred trading losses of R1.56 billion, impairments of its property, plant and equipment of R2.2 billion and de-recognised its deferred tax asset of R4.09 billion. The Group's 45% share amounted to R3.609 billion on inclusion of the amortisation of intangible assets of R10 million and an expense of R65 million relating to equity settled share-based payment charges that were previously added back in the prior year in line with the Group's accounting policy. In the current year the share-based payment is regarded as cash settled. As at 31 May 2019, no value was attributed to the underlying value of Cell C and as a consequence thereto the balance of the carrying value of Blue Label's investment therein, amounting to R2.52 billion, was impaired.

Cell C Limited performs an annual impairment test on the carrying value of its property, plant, equipment and intangible assets (Cash generating unit "CGU"). The impairment was calculated by applying the value in use (VIU) method, on a discounted cash flow basis. The impairment assessment was based on the carrying value of the CGU and is reflective of the conditions that existed at the reporting date. Assumptions were made on the cash flows, which were limited to the generation of cash by the CGU, not taking into account new technology, expansionary growth or the pending recapitalisation transaction. The exclusion thereof are requirements of IAS 36 *Impairment of Assets*.

The recoverability of the deferred tax asset is required to be performed on an annual basis. A deferred tax asset is recognised in respect of deductible temporary differences and tax losses to the extent that it is probable that future taxable profits will be available. At the reporting date, based on estimated future profitability with no regard to new technology, expansionary growth or the pending recapitalisation transaction, the deferred tax asset was impaired.

For the 10 months ended 31 May 2018, Cell C's net profit amounted to R1.125 billion. This comprised trading losses of R765 million, impairment of certain of its property, plant and equipment of R32 million offset by the recognition of a deferred tax asset amounting to R1.92 billion. The Group's share of this net profit was R498 million after the amortisation of intangible assets of R9 million. In line with BLT's accounting policies, an exclusion relating to equity-settled share-based payment charges from its associates resulted in a positive adjustment of R65 million. The net result was a positive contribution of R563 million to BLT's earnings in the prior year.

Fair value adjustments and impairment

The fair value adjustments of R838 million for the year ended 31 May 2019 were attributable to downward adjustments of R750 million relating to the non-recoverability of the exposure to SPV1 and SPV2 and R88 million, net of taxation, to the Glocell loan. The impairment of R50 million pertained to Blue Label Connect.

Remaining entities

These entities incorporate the core distribution companies, 3G Mobile group and Airvantage.

Revenue declined by 3% from R26.2 billion to R25.4 billion, in that only the gross profit earned on "PINless top-ups", prepaid electricity and ticketing are accounted for. On imputing the gross revenue generated thereon, the effective growth in revenue equated to 10% from R52.1 billion to R57.2 billion.

Net commissions earned on the distribution of prepaid electricity continued to increase, escalating by R39 million to R278 million (17%) on an increase in revenue generated on behalf of the utilities from R16.9 billion to R20 billion (19%).

Gross profit increased by 17% from R2.01 billion to R2.35 billion, underpinned by an increase in margins from 7.67% to 9.28%. EBITDA increased by 18% from R1.34 billion to R1.58 billion, equating to an EBITDA margin of 6.23%.

Contribution to core headline earnings increased by 13% from R812 million to R919 million.

Below illustrates the contribution to the above by the 3G Mobile group and Airvantage.

3G Mobile group

The 3G Mobile group comprises a mobile handset trading division (3G) and, through its wholly owned subsidiary, Comm Equipment Company (CEC) it provides the financing for the handset element of postpaid contracts on behalf of Cell C as well as the financing of other hardware.

The underlying table reflects its financial results for the year ended 31 May 2019 in comparison to 10 months ended 31 May 2018:

3G Mobile

	May 2019 R'000	Aug – Nov 2017 Equity accounted R'000	Dec – May 2018 Consolidated R'000	**10 months to May 2018 R'000**	Growth R'000	Growth %
Revenue	**2 245 687**	569 315	764 917	**1 334 232***	911 455	68%
Gross profit	**505 319**	139 478	226 184	**365 662**	139 657	38%
EBITDA	**407 049**	105 933	180 659	**286 592**	120 457	42%
Core net profit	**278 341**	75 020	121 184	**196 204**	82 137	42%

** Prior year revenue has been restated for the adoption of IFRS 15 for comparative purposes and has not been audited on this basis.*

Revenue generated for the year ended 31 May 2019 amounted to R2.2 billion, gross profit to R505 million at a margin of 22.50% and EBITDA to R407 million. Core net profit amounted to R278 million.

From the date of acquisition of 47.37% in August 2017 until 30 November 2017, its financial results for the four-month period were equity accounted for as an associate. Its core net profit during that period amounted to R75 million, of which the Group's share equated to R35 million.

On 6 December 2017 the remaining 52.67% of the company was acquired, at which date it became a wholly owned subsidiary. Revenue generated for the six months to 31 May 2018 amounted to R765 million, gross profit to R226 million at a margin of 29.57% and EBITDA to R181 million. Its core net profit for the six months as a wholly owned subsidiary amounted to R122 million.

Airvantage

Airvantage advances emergency top-up airtime and data to prepaid subscribers, utilising sophisticated algorithms to assess their creditworthiness. On 2 January 2018, Blue Label acquired 60% of the company.

The underlying table reflects its financial results for the full year ended 31 May 2019 in comparison to five months ended 31 May 2018:

Airvantage SA

	May 2019 R'000	Five months to May 2018 R'000	Growth R'000	Growth %
Revenue	**88 629**	36 929	51 700	140%
Gross profit	**74 811**	29 241	45 570	156%
EBITDA	**58 819**	20 650	38 169	185%
Net profit	**40 953**	14 221	26 732	188%

Revenue generated for the year ended 31 May 2019 amounted to R89 million, gross profit to R75 million at a margin of 84.41%, EBITDA to R59 million and core net profit to R41 million. The Group's share thereof equated to R24 million.

Revenue generated by it for the five months to 31 May 2018 amounted to R37 million, gross profit to R29 million at a margin of 79.18%, EBITDA to R21 million and core net profit to R14 million, of which the Group's share equated to R8.3 million.

International

	May 2019 R'000	OSI May 2019 R'000	Remaining entities May 2019 R'000	May 2018 R'000	OSI May 2018 R'000	Remaining entities May 2018 R'000	Growth remaining entities R'000	Growth remaining entities %
Revenue	**35 013**	–	35 013	**–**	–	–	35 013	
Gross profit	**33 383**	–	33 383	**–**	–	–	33 383	
EBITDA	**(20 358)**	(71 675)	51 317	**(2 903)**	–	(2 903)	54 220	
Impairments on associates and joint venture	**(118 412)**	(118 412)	–	**–**	–	–	–	
Share of (losses)/ profits from associates and joint ventures	**(110 440)**	(86 637)	(23 803)	**(66 683)**	(45 185)	(21 498)	(2 305)	11%
– Oxigen Services India	**(86 637)**	(86 637)	–	**(45 185)**	(45 185)	–	–	
– Blue Label Mexico	**(24 095)**		(24 095)	**(21 900)**	–	(21 900)	(2 195)	10%
– Mpower	**292**		292	**402**	–	402	(110)	(27%)
Non-controlling interest	**(6 587)**	–	(6 587)	**(26 058)**	–	(26 058)	19 471	(75%)
Net (loss)/profit	**(263 260)**	(276 723)	13 463	**(98 538)**	(57 555)	(40 983)	54 446	(133%)
Core net profit/ (loss)	**(255 585)**	(276 723)	21 138	**(96 990)**	(57 555)	(39 435)	60 573	(154%)
Core headline profit/(loss)	**(90 142)**	(111 137)	20 995	**(102 154)**	(57 555)	(44 599)	65 594	(147%)

Oxigen Services India and 2DFine

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.

The proposed corporate transaction, referred to in the subsequent events of 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 Oxigen Group. The full value of loans to Oxigen Services India of R30 million and 2DFine Holdings Mauritius of R41 million, net of a surety asset raised, were impaired. In addition, the Group has accounted for a R41 million liability relating to financial guarantee contracts and R46 million for its share of losses in OSI. The resultant negative contribution to core net loss totalled R276 million.

Remaining entities

The remaining entities within the international segment comprise shareholdings of 48% in Airvantage Brazil with effect from 2 January 2018, 60% in AV Technology with effect from 1 August 2018, 47.56% in Blue Label Mexico and 100% of Gold Label Investments.

The increases in revenue of R35 million and gross profit of R34 million were entirely attributable to AV Technology.

The increase in EBITDA of R54 million was attributable to positive foreign exchange movements of R26 million, the non-recurrence of start-up costs of R12 million incurred by Airvantage pertaining to its operation in Brazil, non-comparatives applicable to AV Technology amounting to R32 million, offset by loan releases of R16 million relating to the winding up process of the Africa Prepaid Services group in the comparative year.

Losses in Blue Label Mexico increased from R43 million to R47 million, of which the Group's share amounted to R24 million after the amortisation of intangible assets. In the comparative year the Group's share of losses amounted to R22 million.

The increase in loss was attributable to a decline in revenue from R4.0 billion to R3.6 billion (9%), with gross profit margins remaining static at 3.8%. In spite of limiting overheads to a growth of 4% and a reduction in depreciation, the above resulted in the Group's share of losses increasing by R2 million.

In order to mitigate such losses incurred, various initiatives that were implemented in the last quarter of the financial year 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.

Non-controlling interest declined by R19 million, of which R13 million related to minority shareholders in both Airvantage Brazil and AV Technology. In the comparative year, R32 million related to the Africa Prepaid Services group for its share of the loan releases as a consequence of the winding up process therein.

Net contribution to core headline earnings amounted to R21 million.

Mobile

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

	May 2019 R'000	Impair-ments May 2019 R'000	Remaining May 2019 R'000	**Restated* May 2018 R'000**	Growth R'000	Growth %
Revenue	**267 114**	–	267 114	**293 954**	(26 840)	(9%)
Gross profit	**197 766**	–	197 766	**204 349**	(6 583)	(3%)
EBITDA	**24 977**	(74 003)	98 980	**101 883**	(2 903)	(3%)
Net (loss)/profit	**(39 985)**	(96 137)	56 152	**57 609**	(1 457)	(3%)
Core net (loss)/profit	**(38 326)**	(96 137)	57 811	**59 553**	(1 742)	(3%)
Core headline earnings	**58 122**	–	58 122	**59 679**	(1 557)	(3%)

** As a result of the prior year errors the Group has restated their comparative financial information.*

Of the impairments of R96 million, R74 million pertained to a partial impairment of goodwill in Via Media and R22 million to a partial impairment of an investment in Supa Pesa, a joint venture company.

Although revenue declined by 9%, gross profit margins increased from 69.52% to 74.04%, limiting the decline in gross profit to 3% and EBITDA to 3%.

Contribution to Group core headline earnings declined by 3% to R58 million.

Solutions

This segment comprises Datacel, Blue Label Data solutions (BLDS), a data aggregation and lead generation entity in which the Group owns 81%, and a 50% joint venture shareholding by BLDS in United Call Centre Solutions, an outbound call centre operation.

	May 2019 R'000	May 2018 R'000	Growth R'000	Growth %
Revenue	**203 238**	195 089	8 149	4%
Gross profit	**61 885**	63 574	(1 689)	(3%)
EBITDA	**37 786**	42 838	(5 052)	(12%)
Share of (losses)/profits from associates and joint ventures	**22 769**	4 579	18 190	397%
Net profit	**43 563**	29 836	13 727	46%
Core net profit	**43 563**	29 836	13 727	46%
Core headline earnings	**43 563**	29 814	13 749	46%

The growth in revenue of 4% to R203 million was attributable to increased demand for aggregated data and lead generations. A marginal decline in gross profit margins from 32.59% to 30.45% resulted in a nominal movement in gross profit. After overhead increases of 10%, EBITDA equated to R38 million.

Of the core headline earnings of R44 million, BLDS accounted for R26 million. United Call Centre Solutions generated earnings of R45.1 million, of which BLDS's share amounted to R22.5 million. After accounting for a minority shareholding of 19%, the Group's share thereof amounted to R18 million.

Corporate

	May 2019 R'000	OSI May 2019 R'000	Remaining entities May 2019 R'000	**May 2018 R'000**	OSI May 2018 R'000	Remaining entities May 2018 R'000	Growth remaining entities R'000	Growth remaining entities %
EBITDA	**(234 611)**	(121 689)	(112 922)	**(146 489)**	–	(146 489)	33 567	23%
Net loss	**(259 194)**	(121 689)	(137 505)	**(211 463)**	(70 925)	(140 538)	3 033	2%
Core net loss	**(259 194)**	(121 689)	(137 505)	**(211 463)**	(70 925)	(140 538)	3 033	2%
Core headline loss	**(259 194)**	(121 689)	(137 505)	**(211 601)**	(70 925)	(140 676)	3 171	2%

On exclusion of the loan impairment of R60 million pertaining to 2DFine and R62 million to the liability relating to financial guarantee contracts, the negative contribution to Group core headline earnings declined by R3 million to R138 million.

DEPRECIATION AND AMORTISATION

Depreciation, amortisation and impairment charges increased by R97 million to R253 million. Of this increase, R26.9 million pertained to depreciation on additional capital expenditure incurred during the year, impairments of R3.2 million and R67.4 million relating to the amortisation of intangible assets, of which R52.6 million emanated from purchase price allocations on historical acquisitions which increased from R46.5 million to R99.1 million.

NET FINANCE COSTS

Finance costs totalled R246 million, of which R231 million related to interest paid on borrowed funds and R15 million to imputed IFRS interest adjustments. On a comparative basis, interest paid on borrowed funds amounted to R167 million and the imputed IFRS interest adjustment equated to R140 million. Of the latter amount, R75 million was attributable to credit received from suppliers and R65 million to the acquisition of 3G Mobile and Airvantage.

The increase of R64 million was attributable to additional borrowings utilised from existing facilities.

Finance income totalled R100 million, of which R97 million was attributable to interest received on cash resources and R3 million to imputed IFRS interest adjustments on credit afforded to customers. In the prior year, interest received on cash resources amounted to R192 million and the imputed IFRS interest adjustment to R3 million.

STATEMENT OF FINANCIAL POSITION

Total assets decreased by R5.9 billion to R12.1 billion of which non-current assets accounted for R5.9 billion net of an increase in current assets of R78 million.

The negative movement in non-current assets included a decline in investments in and loans to associates and joint ventures of R6.5 billion, in loans receivable of R12 million and in the long-term portion of trade and other receivables of R23 million. These decreases were offset by increases in intangible assets and goodwill of R205 million, in capital expenditure net of depreciation of R101 million, in advances to customers of R228 million and deferred tax assets of R31 million.

A net decrease of R7.5 billion in investments in and loans to associates and joint ventures was predominately attributable to net loan repayments of R1 billion, impairments of loans in OSI of R161 million and impairments of investments totalling R2.7 billion, of which Cell C accounted for R2.5 billion, OSI for R118 million and Supa Pesa for R29.5 million. This was compounded by the Group's net share of losses in associates totalling R3.7 billion, of which Cell C accounted for R3.6 billion inclusive of the amortisation of applicable intangible assets.

Of the net increase of R205 million in intangible assets and goodwill, R199 million related to goodwill and R6 million to intangible assets. Of the goodwill increase, R219 million pertained to Glocell Distribution, R49 million to AV Technology and R46 million to Wi-Connect. These increases were offset by partial impairments to goodwill in both Via Media and Blue Label Connect for R74 million and R50 million respectively.

Of the increase in intangible assets of R6 million, R130 million related to the purchase price allocations raised in terms of IFRS 3 and intangibles assets within the companies prior to the acquisition thereof, of which R78 million pertained to AV Technology and R52 million to Glocell Distribution. In addition R76 million was incurred on the purchase of software and internally generated software development costs with a further R8 million allocation in line with foreign currency translation movements. These intangible increases were offset by amortisations of R203 million and impairments of intangible assets of R5 million.

Of the increase in current assets, material movements included increases in inventory of R917 million and cash resources of R438 million, offset by decreases in advances to customers of R206 million.

The stock turn equated to 24 days compared to 9 days for the financial year ended 31 May 2018.

The average debtor's collection period remained unchanged year on year at 75 days.

Net loss attributable to equity holders of R6.7 billion, resulted in retained earnings declining to R2.4 billion.

Share capital and share premium decreased by R246 million congruent with the repurchase of 32.9 million shares at a weighted average price of R6.78, the purchase of treasury shares amounting to R42 million less R21 million of shares that vested.

Borrowings increased by R265 million, of which R155 million was for facilities utilised by CEC for the financing of mobile handsets.

Trade and other payables increased by R381 million, with average credit terms increasing from 66 days to 87 days.

STATEMENT OF CASH FLOWS

Cash available from operations amounted to a negative R81 million, attributable to increased inventory of R864 million, trade receivables of R434 million, advances to customers of R22 million offset by additional credit of R208 million afforded to the Group by its suppliers.

The increase in inventory was attributable to bulk purchasing at favourable discounts. Although this resulted in a temporary increase in inventory holding days, being a highly liquid asset, such excess inventory is capable of reduction within any given month. Of the increase in accounts receivable, R157 million related to a prepayment to utilities for prepaid electricity, which was replaced by inventory shortly after the reporting period due to timing differences. Further supplier prepayments amounted to R128 million.

Cash flows received from investing activities amounted to R561 million, mainly attributable to the R1 billion loan that was repaid by Cell C, offset by funds applied, net of cash acquired, to the acquisition of Airvantage Mauritius amounting to R19 million. A further R326 million was granted for the liquidity support to SPV2, R76 million for the purchase of intangible assets and R134 million for capital expenditure.

Cash flows applied to financing activities amounted to R42 million, of which R224 million related to share buybacks, R42.4 million to the acquisition of treasury shares and a dividend payment of R35.6 million to non-controlling interests. After additional borrowings of R260 million, cash on hand at year end amounted to R1.4 billion.

FORFEITABLE SHARE SCHEME

Forfeitable shares totalling 5 947 453 (2018: 1 809 711) were issued to qualifying employees. During the year 473 121 (2018: 456 379) shares were forfeited and 2 020 901 (2018: 2 432 743) shares vested.

DIVIDENDS

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

DISPOSALS

The Blue Label Group has consistently generated positive cash flows from its trading operations since inception. These funds have been applied to dividend distributions, share buybacks 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 has 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. These funds will be applied to reduce current interest-bearing debt.

SUBSEQUENT EVENTS AND GOING CONCERN

Blue Label Mobile restructure and disposal

On 3 June 2019, BLT restructured its holdings in Cellfind Proprietary Limited (Cellfind), Via Media Proprietary Limited (Via Media), 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 Via Media. Malik Investments Holdings Proprietary Limited (Malik), a non-Group company, owned 25% of Via Media. In terms of the restructure, BLT exchanged its shares in Cellfind, Via Media, 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.

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 paid towards the acquisition of 50% of Hyve as at the transaction closing date. The purchase price will be settled in cash as follows:

- R350 million plus the amounts BLT paid 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 conditions precedent to this transaction have not been fulfilled as at reporting date. 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 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. 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 million 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 RMB in order to expunge the distribution of stock in full from the vault 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.

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.

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 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.

INDEPENDENT AUDIT

These summary consolidated financial statements for the year ended 31 May 2019 have been audited by PricewaterhouseCoopers Inc., who expressed a modified opinion thereon. The auditor also expressed a modified opinion on the consolidated annual financial statements from which these summary consolidated financial statements were derived.

A copy of the auditor's report on the summary consolidated financial statements and of the auditor's report on the annual consolidated financial statements are available for inspection at the Company's registered office, together with the financial statements identified in the respective auditor's reports.

The auditor's report does not necessarily report on all of the information contained in this announcement/financial results. Shareholders are therefore advised that in order to obtain a full understanding of the nature of the auditor's engagement they should obtain a copy of the auditor's report together with the accompanying financial information from the issuer's registered office.

APPRECIATION

The Board of Blue Label would once again like to express its appreciation to its suppliers, customers, business partners and staff for their ongoing support and loyalty.

For and on behalf of the Board

LM Nestadt
Chairman

BM Levy and MS Levy
Joint Chief Executive Officers

DA Suntup* CA(SA)
Financial Director

26 September 2019

** Supervised the preparation and review of the Group's audited year-end results.*

Independent auditor's report on summary Group financial statements

To the shareholders of Blue Label Telecoms Limited

OPINION

The summary consolidated financial statements of Blue Label Telecoms Limited, contained in the accompanying provisional report, which comprise the summary consolidated statement of financial position as at 31 May 2019, the summary consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and related notes, are derived from the audited consolidated financial statements of Blue Label Telecoms Limited for the year ended 31 May 2019.

In our opinion, the accompanying summary consolidated financial statements are consistent, in all material respects, with the audited consolidated financial statements, in accordance with the requirements of the JSE Limited Listings Requirements for provisional reports, as set out in the *basis of preparation* section in the summary consolidated financial statements, and the requirements of the Companies Act of South Africa as applicable to summary financial statements.

SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

The summary consolidated financial statements do not contain all the disclosures required by International Financial Reporting Standards and the requirements of the Companies Act of South Africa as applicable to annual financial statements. Reading the summary consolidated financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited consolidated financial statements and the auditor's report thereon.

THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND OUR REPORT THEREON

We expressed a qualified audit opinion on the audited consolidated financial statements in our report dated 26 September 2019.

The basis for our qualified opinion was as follows: 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.

During the year, however, the adverse trading conditions experienced by Cell C, 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 on the following).

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) measure and core HEPS measure would also be impacted, should the equity-accounted losses and impairment of investment in Cell C materially differ as explained.

Independent auditor's report on summary Group financial statements 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.

The audit report also includes:

- A *material uncertainty relating to going concern* section that draws attention to note 9.2 to the audited consolidated financial statements. Note 9.2 of the audited consolidated financial statements indicated that 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. The summary consolidated financial statements are affected to the equivalent extent as the audited consolidated financial statements. These matters are addressed in the *going concern* section of the summary consolidated financial statements.
- The communication of other 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.

DIRECTOR'S RESPONSIBILITY FOR THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the summary consolidated financial statements in accordance with the requirements of the JSE Limited Listings Requirements for provisional reports, as set out in the *basis of preparation* section in the summary consolidated financial statements, and the requirements of the Companies Act of South Africa as applicable to summary financial statements.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on whether the summary consolidated financial statements are consistent, in all material respects, with the audited consolidated financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810 (Revised), *Engagements to Report on Summary Financial Statements*.

OTHER MATTERS

We have not audited future financial performance and expectations expressed by the directors included in the commentary in the accompanying financial statements and accordingly do not express an opinion thereon.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: D Storm
Registered Auditor
Johannesburg
26 September 2019

Summarised Group income statement

for the year ended 31 May 2019

	2019 R'000	Restated* 2018 R'000
Revenue	**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	**(594 183)**	(524 187)
Depreciation and amortisation	**(253 016)**	(155 540)
Impairments and fair value losses	**(1 212 089)**	(158 657)
Other expenses	**(498 083)**	(427 863)
Operating profit	**209 664**	1 097 549
Finance costs	**(245 957)**	(306 636)
Finance income	**99 705**	195 298
Impairments on associates and joint venture	**(2 669 076)**	–
Share of (losses)/gains from associates and joint ventures	**(3 701 410)**	520 628
(Loss)/profit before taxation	**(6 307 074)**	1 506 839
Taxation	**(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	**(727.81)**	131.13
– Diluted[1]		123.03

** As a result of the prior year errors the Group has restated their comparative financial information.*
[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.

Summarised 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)**	(3 098)
Items that may be subsequently reclassified to profit or loss		
Foreign exchange profit/(loss) on translation of associates and joint ventures*	**45 868**	(7 680)
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.*

Summarised Group statement of financial position

As at 31 May 2019

	2019 R'000	Restated* 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	**237 657**	137 120	111 599
Intangible assets	**1 083 328**	1 076 871	511 164
Goodwill	**1 234 995**	1 036 243	604 590
Investments in and loans to associates and joint ventures	**218 842**	6 684 585	731 788
Loans receivable	**41 760**	53 270	36 851
Trade and other receivables	**–**	22 757	47 858
Advances to customers	**584 440**	356 689	–
Deferred taxation assets	**76 048**	45 223	26 697
Current assets	**8 604 302**	8 526 636	6 498 626
Loans to associate	**–**	1 029 626	–
Inventories	**1 514 649**	597 946	2 180 121
Loans receivable	**190 769**	207 799	188 229
Trade and other receivables	**4 257 266**	4 292 970	2 767 475
Advances to customers	**1 032 657**	1 238 321	–
Financial asset at fair value through profit and loss	**204 739**	168 144	–
Current tax assets	**18 626**	43 942	12 135
Cash and cash equivalents	**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	**(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	**236 400**	229 100	49 391
Borrowings	**1 715 520**	1 514 140	–
Current liabilities	**7 637 890**	6 681 069	3 652 708
Trade and other payables	**5 371 386**	4 990 798	3 543 779
Financial guarantee contracts	**243 492**	–	–
Provisions	**24 947**	39 628	35 071
Financial liabilities at fair value through profit and loss	**460 354**	143 307	–
Current tax liabilities	**9 104**	50 368	55 832
Borrowings	**1 520 764**	1 456 968	18 026
Bank overdraft	**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.*

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.

Summarised Group statement of changes in equity

for the year ended 31 May 2019

	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 errors*	–	(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 – restated*	–	–
Total comprehensive income/(loss) – restated*	–	1 122 085
Treasury shares purchased	(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	**–**	**(95 888)**
Adjustment on the initial application of IFRS 15	**–**	**9 717**
Adjusted opening balance as at 1 June 2018	**7 844 847**	**4 241 352**
Net profit for the year	**–**	**(6 646 383)**
Other comprehensive income	**–**	**–**
Total comprehensive (loss)/income	**–**	**(6 646 383)**
Treasury shares purchased	**(42 378)**	**–**
Shares repurchased	**(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.*
** *The majority of this amount relates to the put option on the acquisition of Airvantage Technology Limited*

Other reserves R'000	Total ordinary shareholders' 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**

Summarised Group statement of cash flows

for the year ended 31 May 2019

	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	**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	**(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	**(134 028)**	(71 640)
Acquisition of subsidiary net of cash acquired	**(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	**–**	(117 037)
Liquidity support granted	**(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	**993 439**	935 442
Interest-bearing borrowings repaid	**(769 652)**	–
Non-interest-bearing borrowings raised	**35 876**	–
Non-interest-bearing borrowings repaid	**(170)**	(58)
Proceeds from shares issued	**–**	3 650 000
Transaction costs on share issue	**–**	(12 424)
Share buy back	**(224 006)**	–
Acquisition of treasury shares	**(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	**1 377 753**	947 888

Share performance

for the year ended 31 May 2019

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*.

Headline earnings, earnings and core headline earnings per share

		Attributable earnings		Cents per share	
	Notes	**2019 R'000**	Restated* 2018 R'000	**2019 R'000**	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.
** As a result of the prior year errors the Group has restated their comparative information.*

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.

Share performance continued

for the year ended 31 May 2019

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				
Profit 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)**
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 errors the Group has restated their comparative information.*

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 errors the Group has restated their comparative financial information.*

Segmental summary

Year ended 31 May 2019	Total R'000	Africa Distribution R'000	Inter-national R'000	Mobile R'000	Solutions R'000	Corporate R'000
Total segment revenue	35 711 586	35 004 904	35 013	274 869	205 106	191 694
Internal revenue	(9 842 153)	(9 640 836)	–	(7 755)	(1 868)	(191 694)
Revenue	25 869 433	25 364 068	35 013	267 114	203 238	–
Operating profit/(loss)	209 664	432 373	(34 503)	10 478	37 494	(236 178)
Net (loss)/profit for the year attributable to equity holders of parent	(6 646 383)	(6 127 507)	(263 260)	(39 985)	43 563	(259 194)
Amortisation of intangibles raised through business combinations net of tax and non-controlling interest	70 485	61 151	7 675	1 659	–	–
Headline earnings adjustment	3 792 743	3 530 852	165 443	96 448	–	–
Core headline earnings for the year attributable to equity holders of parent	(2 783 155)	(2 535 504)	(90 142)	58 122	43 563	(259 194)
As at 31 May 2019						
Total assets	12 081 372	11 008 921	439 247	450 542	164 341	18 321
Net operating assets/(liabilities)	966 412	1 036 773	120 608	29 486	39 234	(259 689)

Year ended 31 May 2018	Restated* Total R'000	Africa Distribution R'000	Restated* Inter-national R'000	Restated* Mobile R'000	Solutions R'000	Corporate R'000
Total segment revenue	33 567 250	32 897 392	–	304 342	196 762	168 754
Internal revenue	(6 833 001)	(6 652 186)	–	(10 388)	(1 673)	(168 754)
Revenue	26 734 249	26 245 206	–	293 954	195 089	—
Operating profit/(loss)	1 097 549	1 205 191	(18 824)	86 833	42 455	(218 106)
Net profit for the year attributable to equity holders of parent	1 122 085	1 344 641	(98 538)	57 609	29 836	(211 463)
Amortisation of intangibles raised through business combinations net of tax and non-controlling interest	44 345	40 853	1 548	1 944	–	–
Headline earnings adjustment	(5 953)	(755)	(5 164)	126	(22)	(138)
Core headline earnings for the year attributable to equity holders of parent	1 160 477	1 384 739	(102 154)	59 679	29 814	(211 601)
As at 31 May 2018						
Total assets	17 939 394	16 671 589	526 488	561 330	146 672	33 315
Net operating assets/(liabilities)	1 845 567	1 755 660	94 701	62 036	36 780	(103 610)

** As a result of the prior year errors the Group has restated their comparative financial information.*

Revenue

	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.*

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)**

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

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 is 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 and an expected exit event date of Cell C in the second quarter of 2020. 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.

Financial instruments at fair value through profit and loss continued

BOND NOTES AND LIQUIDITY SUPPORT continued

As at 31 May 2019, a qualified independent third-party specialist determined 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 Glocell Distribution Proprietary Limited (Glocell Distribution) on 30 June 2018.

In terms of an agreement entered into between TPC and Glocell Proprietary Limited (Glocell) during the year ended 31 May 2019, Glocell 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. 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 Glocell Distribution held by Glocell. 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 Glocell Distribution's financial performance.

Fair value estimate

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.

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 R'000
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.

Acquisition of subsidiaries

Shares in the following subsidiaries were acquired during the year:

	Effective date of acquisition	% acquired
SUBSIDIARIES		
Glocell Distribution Proprietary Limited Distributor of airtime, starter packs and mobile phones through its retail outlets and to wholesale customers in South Africa, including postpaid and prepaid contracts	30 June 2018	48%
AV Technology Limited Owner of system that offers Mobile Network Operators the ability to advance airtime, data and mobile money to subscribers in Africa	1 August 2018	60%
Lornanox Proprietary Limited Owner of retail stores trading in cellular handsets, tablets and related accessories, as well as SIM cards, postpaid and prepaid contracts	31 July 2018	100%

Details of the total net assets acquired and the resulting goodwill as at the date of acquisition are as follows:

	Glocell Distribution Proprietary Limited R'000	AV Technology Limited R'000	WiConnect Proprietary Limited R'000
Total purchase consideration	173 398	84 187	5 000
Fair value of net assets acquired	(45 381)	34 889	(40 588)
Goodwill	218 779	49 298	45 588

The assets and liabilities acquired through acquisition are as follows:

	Glocell Distribution Proprietary Limited		AV Technology Limited		WiConnect Proprietary Limited	
	Fair value at acquisition date R'000	Acquirer's carrying amount on acquisition date R'000	Fair value at acquisition date R'000	Acquirer's carrying amount on acquisition date R'000	Fair value at acquisition date R'000	Acquirer's carrying amount on acquisition date R'000
Cash and cash equivalents	5 978	5 978	65 442	65 442	10 605	10 605
Property, plant and equipment	5 733	5 733	–	–	39 251	39 251
Intangible assets	52 364	29 571	78 059	440	–	–
Goodwill	218 780	–	49 298	–	45 588	–
Inventories	19 754	19 754	–	–	34 255	34 255
Receivables	37 023	37 023	10 039	10 039	29 659	29 659
Deferred tax	(6 300)	–	(21 733)	–	6 880	18 067
Borrowings	–	–	–	–	(104 529)	(144 480)
Payables	(209 097)	(209 097)	(73 658)	(73 658)	(56 709)	(56 709)
Value of subsidiaries acquired	124 235	(111 038)	107 447	2 263	5 000	(69 352)
Non-controlling interest		57 740		(905)		–
Value of net assets acquired		(53 298)		1 358		(69 352)
Total purchase consideration		173 398		84 187		5 000
Debtors capitalised		(173 398)		–		–
Cash and cash equivalents in subsidiary acquired		(5 978)		(65 442)		(10 605)
Cash outflow from acquisitions		(5 978)		18 745		(5 605)

Glocell Distribution Proprietary Limited (Glocell) and WiConnect Proprietary Limited (WiConnect) were purchased with the objective of affording the Group access to new channels for the supply and distribution of airtime, mobile devices and contracts. AV Technology Limited (AV Technology) gives 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 above acquisitions, this goodwill is underpinned by a number of elements, which individually cannot be quantified. Most significant among these in Glocell and WiConnect is the opportunity that the distribution network affords the Group. Most significant in AV Technology is the opportunity that the Prepaid Airtime Advance System affords the Group.

Significant related party transactions and balances

for the year ended 31 May 2019

	2019 Audited R'000	2018 Audited R'000
Sales to related parties		
Cell C Proprietary Limited	**2 030 623**	1 100 788
Purchases from related parties		
Cell C Proprietary Limited	**6 203 272**	4 873 215
Interest received from related parties		
2DFine Holdings Mauritius	**3 776**	21 736
Cell C Proprietary Limited	**141 841**	96 380
Loans to related parties		
2DFine Holdings Mauritius*	**208 026**	242 687
Brett Levy*	**42 502**	27 503
Cell C Proprietary Limited	**–**	1 029 626
Mark Levy*	**42 502**	27 503
Oxigen Services India Private Limited	**47 215**	34 018
Loss allowance on above loans	**(255 242)**	(141 850)
Amounts due from related parties included in trade receivables		
Cell C Proprietary Limited	**1 352 718**	1 028 184
Amounts due to related parties included in trade payables		
Cell C Proprietary Limited	**1 212 392**	1 573 472

* *Brett Levy and Mark Levy have signed personal sureties for the loan owed by 2DFine Holdings Mauritius to Gold Label Investments Proprietary Limited. Their liability is limited to the difference between the loan owing to Gold Label Investments Proprietary Limited and the value of 16.93% of the shares in Oxigen Services India Private Limited on the 30th day after which the loan becomes due and payable or the extended date as may be agreed in writing by Gold Label Investments Proprietary Limited. As at 31 May 2019 a combined surety asset of R85 million has been raised (May 2018: R55 million).*

Change in accounting policy

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 is offset by the impairment of the investment in Cell C to zero, resulting in an immaterial effect on net profit after tax.

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), ▶ 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's 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.

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 summarised Group statement of financial position and summarised 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 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 gains/(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 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 profit attributable to:			
Equity holders (cents)			
– Basic	**(123.07)**	(0.04)	**(123.03)**
– Diluted[1]			

[1] *There are no dilutive instruments in the current year.*

Change in accounting policy 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	2 517 680	(26 118)	2 491 562
Issued share capital and premium	7 599 016	–	7 599 016
Other reserves	(2 824 740)	–	(2 824 740)
Retained earnings	(2 378 913)	(26 118)	(2 405 031)
Total ordinary shareholders' equity	2 395 363	(26 118)	2 369 245
Non-controlling interest	122 317	–	122 317
Non-current liabilities	1 960 247	(8 327)	1 951 920
Deferred taxation liabilities	244 727	(8 327)	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

Adjustments to retained earnings	IFRS 15 adjustments R'000
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

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, and
- cash and cash equivalents (immaterial impairment loss identified)

Change in accounting policy 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 drawdowns 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 summarised Group statement of financial position and summarised 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.

Group statement of financial position

As at 31 May 2019

	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
Investments in and loans to venture capital associates and joint ventures	–	–	–
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
Financial guarantee contracts	–	–	–
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
Bank overdraft	–	–	–
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 the prior year errors note.*

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			—			—
Effect on Group income statement (extract)						
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)

Impairment assessment of goodwill and investments in associates

For the year ended 31 May 2019, management performed an impairment assessment over the goodwill and investment balances 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.

KEY ASSUMPTIONS APPLIED TO VALUE-IN-USE CALCULATIONS

	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 Connect Proprietary Limited	**4.2**	**22.7**	4.2	18.7
Via Media Proprietary Limited	**4.2**	**29.0**	4.0	19.2

The discount rates used are pre-tax and reflect specific risks relating to the relevant associates and 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 companies/cash-generating units operate. The discount rates used for the prior year were adjusted to reflect the Group's target debt:equity ratio. This did not give rise to any impairments in the prior period.

Where relevant, other valuation methodologies were applied. These will be explained in the applicable paragraphs pertaining to those assessments.

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

Impairment of goodwill

Via Media goodwill impairment of R74 million

Via Media'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.

Blue Label Connect goodwill impairment of R50 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.

Impairment of investments

SupaPesa investment impairment of R30 million

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

Oxigen, Oxigen Online and 2DFine investments impairment to Rnil

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 Oxigen Services India and Oxigen Online, less the liabilities of the 2DFine Group.

Impairment assessment of goodwill and investments in associates continued

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 Oxigen Group was required. The full value of loans to Oxigen 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.

Cell C Limited investment impairment to Rnil

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 forecast reduction in capital expenditure.

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 summarised 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 summarised 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.*

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.

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 to 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.

Subsequent events

SUBSEQUENT EVENTS

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), Via Media Proprietary Limited (Via Media), 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 Via Media. Malik Investments Holdings Proprietary Limited (Malik), a non-Group company, owned 25% of Via Media. In terms of the restructure, BLT exchanged its shares in Cellfind, Via Media, 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.

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 has 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. 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 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 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.

Basis of preparation

The summarised Group financial statements are prepared in accordance with the requirements of the JSE Limited Listings Requirements for provisional reports, and the requirements of the Companies Act applicable to the summarised Group financial statements. The Listings Requirements require provisional reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 – *Interim Financial Reporting*.

The accounting policies applied in the preparation of the audited summarised Group financial statements are in terms of IFRS and are consistent with those applied in the previous audited Group annual financial statements as at 31 May 2018, except for the change in accounting policy stated. The Group has adopted all new and amended accounting pronouncements issued by the IASB that are effective for financial years commencing 1 June 2018. Refer to the change in accounting policy note.

Non-IFRS information

The auditor's report does not necessarily cover all of the information contained in this announcement. Shareholders are therefore advised that in order to obtain a full understanding of the nature of the auditor's work they should obtain a copy of that report together with the accompanying financial information from the registered office of the Company. This announcement contains certain non-IFRS financial information which has not been audited or reported on by the Group's auditors.

Administration

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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
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(Registration number 2006/022679/06)

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