"Who dares, wins"

BLUE LABEL
TELECOMS

AUDITED RESULTS
FOR THE YEAR ENDED 31 MAY 2021

WINNING BUSINESS for 20 YEARS

Financial highlights and salient features

Revenue of **R18.8 billion***

Headline earnings of **86.16 cents** per share (2020: 58.16 cents per share)

Gross profit of **R2.38 billion** (2020: R2.12 billion)

Net cash generated from operating activities of **R1.5 billion** (2020: R1.3 billion)

Core headline earnings of **89.65 cents** per share** (2020: 62.71 cents per share)

Interest-bearing borrowings reduced to **R1.7 billion** (2020: R2.3 billion)

Increase in gross profit margin from **10.05% to 12.66%**

* On inclusion of the gross amount generated on "PINless top-ups", prepaid electricity, ticketing and gaming, the effective increase equated to 10% from R59.9 billion to R66.0 billion.

** On exclusion of non-recurring income of R47 million in the current year and extraneous costs of R163 million in the prior year, core headline earnings per share from continuing operations increased by 16% to 81.50 cents per share compared to 70.54 cents per share in the prior year.

Commentary

Group results

Core headline earnings for the year ended 31 May 2021 amounted to R788 million, equating to core headline earnings of 89.65 cents per share, of which R763 million related to continuing operations and R25 million to discontinued operations.

Core headline earnings for the prior year amounted to R562 million, equating to 62.71 cents per share, of which R469 million related to continuing operations and R93 million to discontinued operations.

On exclusion of non-recurring income of R47 million in the current year and extraneous costs of R163 million in the prior year, as illustrated in the tables on the following page, core headline earnings from continued operations increased by R84 million from R632 million to R716 million. On exclusion of the items noted in the tables on the following page, core headline earnings per share from continuing operations increased by 16% from 70.54 cents per share in the prior year to 81.50 cents per share.

On exclusion of non-recurring income and extraneous costs in both the current and prior year, earnings per share and headline earnings per share from continued operations increased by 15% to 77.31 cents per share and 17% to 78.01 cents per share respectively.

The financial results of WiConnect in the current year of R25 million, as well as those of Blue Label Mobile, the Handset division of 3G Mobile and WiConnect, totalling R93 million in the prior year, are disclosed in core headline earnings from discontinued operations and are not included in the continuing operations' revenue, gross profit, earnings before interest, tax, depreciation and amortisation (EBITDA), and net profit after taxation.

Revenue generated by the continuing operations within the Group declined by 11% to R18.8 billion. As only the gross profit earned on PINless top-ups, prepaid electricity, ticketing and gaming are recognised as revenue, on imputing the gross revenue generated thereon, the effective growth in revenue equated to 10% from R59.9 billion to R66.0 billion.

Gross profit increased by R259 million (12%) to R2.38 billion, congruent with an increase in margins from 10.05% to 12.66%.

Commentary continued

Group income statement

	Group May 2021 R'000	Extraneous income* May 2021 R'000	Remaining May 2021 R'000
Revenue	**18 821 290**	—	18 821 290
Gross profit	**2 383 254**	—	2 383 254
EBITDA	**1 360 273**	131 777	1 228 496
Share of profits/(losses) from associates and joint ventures	**2 951**	(6 554)	9 505
– Blue Label Mexico	**(6 554)**	(6 554)	—
– Other	**9 505**	—	9 505
Net profit/(loss) from continuing operations	**805 286**	126 175	679 111
Core headline earnings	**787 580**	71 663	715 917
– From continuing operations	**762 599**	46 682	715 917
– From discontinued operations	**24 981**	24 981	—
Gross profit margin (%)	**12.66**		12.66
EBITDA margin (%)	**7.23**		6.53
Weighted average shares ('000)	**878 463**		878 463
Share performance from continuing operations			
EPS (cents)	**91.67**		77.31
HEPS (cents)	**83.32**		78.01
Core HEPS (cents)	**86.81**		81.50

* The predominant positive contributions to Group earnings in the current year were attributable to:
- realised foreign exchange gain on the USD20 million liquidity support provided to SPV2[(1)];
- partial recoupment of losses by the Retail division as a result of the closure of the WiConnect stores in the prior year[(2)]; and
- once-off income, including the disposal of the Group's interest in Blue Label Mexico[(3)].

	Extraneous income* May 2021 R'000	Fair value movements[(1)] May 2021 R'000	WiConnect[(2)] May 2021 R'000	Once-offs[(3)] May 2021 R'000
EBITDA	**131 777**	16 009	—	115 768
Net profit from continuing operations	**126 175**	16 961	—	109 214
Core headline earnings	**71 663**	16 961	24 981	29 721
– From continuing operations	**46 682**	16 961	—	29 721
– From discontinued operations	**24 981**	—	24 981	—

Group May 2020 R'000	Extraneous costs** May 2020 R'000	Remaining May 2020 R'000	Growth remaining R'000	Growth remaining %
21 135 326	—	21 135 326	(2 314 036)	(11)
2 124 611	—	2 124 611	258 643	12
825 364	(387 754)	1 213 118	15 378	1
16 598	—	16 598	(7 093)	(43)
(5 806)	—	(5 806)	5 806	100
22 404	—	22 404	(12 899)	(58)
226 786	(376 824)	603 610	75 501	13
562 132	(209 979)	772 111	(56 194)	(7)
469 113	(163 240)	632 353	83 564	13
93 019	(46 739)	139 758	(139 758)	(100)
10.05		10.05		
3.91		5.74		
896 409		896 409		
25.30		67.34	9.97	15
48.73		66.93	11.08	17
52.33		70.54	10.96	16

** The predominant negative contributions to Group earnings in the prior year were attributable to:
- Fair value downward adjustments of the Glocell loan and an unrealised foreign exchange loss on the USD20 million liquidity support provided to SPV2[(4)];
- Impairments of goodwill relating to Blue Label Connect and a partial impairment relating to Glocell Distribution[(5)];
- Extraneous expenditure within the Retail division as a result of the closure of the WiConnect stores[(6)]; and
- Once-off expenditure and income[(7)].

	Extraneous costs May 2020 R'000	Fair value movements[(4)] May 2020 R'000	Impairments[(5)] May 2020 R'000	WiConnect[(6)] May 2020 R'000	Once-offs[(7)] May 2020 R'000
EBITDA	(387 754)	(115 065)	(213 584)	—	(59 105)
Net profit from continuing operations	(376 824)	(96 481)	(213 584)	—	(66 759)
Core headline earnings	(209 979)	(96 481)	—	(183 773)	70 275
– From continuing operations	(163 240)	(96 481)	—	—	(66 759)
– From discontinued operations	(46 739)	—	—	(183 773)	137 034

On exclusion of the above non-recurring income of R132 million in the current year and extraneous costs of R388 million in the prior year, EBITDA increased by R15 million from R1.21 billion to R1.23 billion.

The anticipated increase in overheads, which included costs attributable to additional headcount and expenditure incurred in order to enhance IT Infrastructure, to escalate the quantum of distribution channels, to enhance capacity in the Customer Interaction Centre and implement value added services (VAS) and financial service strategies, contributed to the limited increase in EBITDA.

The Blue Label Group generated positive cash flows from its trading operations for the year ended 31 May 2021.

Commentary continued

Segmental report

Africa distribution

	May 2021 R'000	Extraneous costs[1, 2] May 2021 R'000	Remaining May 2021 R'000	May 2020 R'000	Extraneous costs[4, 5, 6] May 2020 R'000	Remaining May 2020 R'000	Growth remaining R'000	Growth remaining %
Revenue	**18 641 531**	–	18 641 531	20 946 222	–	20 946 222	(2 304 691)	(11)
Gross profit	**2 333 768**	–	2 333 768	2 066 476	–	2 066 476	267 292	13
EBITDA	**1 374 735**	16 009	1 358 726	931 175	(328 649)	1 259 824	98 902	8
Net profit from continuing operations	**820 819**	16 961	803 858	375 952	(310 065)	686 017	117 841	17
Core headline earnings	**880 662**	41 942	838 720	522 976	(280 254)	803 230	35 490	4
- From continuing operations	**855 681**	16 961	838 720	616 564	(96 481)	713 045	125 675	18
- From discontinued operations	**24 981**	24 981	–	(93 588)	(183 773)	90 185	(90 185)	(100)
Gross profit margin (%)	**12.52**		12.52	9.87		9.87		
EBITDA margin (%)	**7.37**		7.29	4.45		6.01		

Refer to page 02 for footnotes (1) and (2) and page 03 for footnotes (4) to (6).

Revenue generated by the continuing operations within the segment declined by 11% from R20.9 billion to R18.6 billion. As only the gross profit earned on PINless top-ups, prepaid electricity, ticketing and gaming are recognised as revenue, on imputing the gross revenue generated thereon, the effective growth in revenue equated to 10% from R59.7 billion to R65.8 billion.

The Group continues to increase market share and bolster its product and services mix to defend and grow its positions in the market. Gross revenue generated on PINless top-ups increased by R4.2 billion (28%) from R15.0 billion to R19.2 billion.

Net commissions earned on the distribution of prepaid electricity amounted to R282 million. Revenue generated on behalf of the utilities increased by 18% from R22.7 billion to R26.7 billion.

Gross profit increased by R267 million (13%) to R2.33 billion, congruent with an increase in margins from 9.87% to 12.52%.

EBITDA in the current year included non-recurring income of R16 million attributable to the realised foreign exchange gain on the USD20 million SPV2 liquidity support. Extraneous costs in the prior year of R329 million comprised a fair value downward adjustment, an unrealised foreign exchange loss on the USD20 million SPV2 liquidity support, and impairments of goodwill.

On exclusion of the above non-recurring income and extraneous costs, and despite an anticipated increase in overheads of R127 million, EBITDA increased by R99 million (8%) from R1.26 billion to R1.36 billion.

Core headline earnings from continuing operations of R856 million included the non-recurring income of R17 million pertaining to foreign exchange gains on the USD20 million liquidity support provided to SPV2. The prior year core headline earnings from continuing operations of R617 million included the fair value downward adjustment, net of taxation, to the Glocell loan of R47 million and an unrealised foreign exchange loss on the USD20 million SPV2 liquidity support of R49 million.

On exclusion of the above non-recurring income in the current year and extraneous costs in the prior year, core headline earnings from continuing operations increased by R126 million (18%) from R713 million to R839 million.

Solutions

This segment comprises Datacel, Blue Label Data Solutions (BLDS), the data aggregation and lead generation entity in which the Group owns 81%, and a 50% joint venture shareholding owned by BLDS in I Talk Holdings and I Talk Financial Services, outbound call centre operations.

	May 2021 R'000	May 2020 R'000	Growth remaining R'000	Growth remaining %
Revenue	**179 759**	189 104	(9 345)	(5)
Gross profit	**49 486**	58 135	(8 649)	(15)
EBITDA	**16 746**	40 330	(23 584)	(58)
Share of profits from associates and joint ventures	**5 722**	19 769	(14 047)	(71)
Core headline earnings	**21 411**	40 910	(19 499)	(48)
Gross profit margin (%)	**27.53**	30.74		
EBITDA margin (%)	**9.32**	21.33		

The decline in revenue of 5% to R180 million was attributable to lower demand for aggregated data and lead generations as a result of Covid-19, which negatively impacted the call centre operations.

Gross profit decreased by R9 million (15%) from R58 million to R49 million, congruent with the decline in revenue and margins from 30.74% to 27.53%.

Overheads increased by R15 million primarily attributable to new learnership initiatives, whereby the benefit of is realised by way of income tax savings as a result of the section 12H allowances being claimed for such learnerships. EBITDA declined by R24 million to R17 million.

Of the core headline earnings of R21 million, BLDS accounted for R16 million. I Talk Holdings and I Talk Financial Services generated earnings of R11.5 million, of which the Group's share thereof amounted to R4.6 million. Of the core headline earnings of R41 million in the prior year, BLDS accounted for R24 million. I Talk Holdings generated earnings of R39.6 million, and which the Group's share thereof amounted to R16 million.

Corporate

	May 2021 R'000	Extraneous income May 2021 R'000	Remaining May 2021 R'000	May 2020 R'000	Extraneous costs May 2020 R'000	Remaining May 2020 R'000	Growth remaining R'000	Growth remaining %
EBITDA	**(82 033)**	43 151	(125 184)	(165 615)	(61 865)	(103 750)	(21 434)	(21)
Net loss from continuing operations	**(104 965)**	43 151	(148 116)	(196 150)	(69 519)	(126 631)	(21 485)	(17)
Core headline earnings	**(103 021)**	43 151	(146 172)	(196 150)	(69 519)	(126 631)	(19 541)	(15)

On exclusion of the non-recurring income in the current year and extraneous costs in the prior year pertaining to the liability relating to financial guarantee contracts, the foreign exchange movements in the Oxigen India Group and the accounting implications of the put option for the acquisition of the remaining 40% minority share of Airvantage and AV Technology, the negative contribution to Group core headline earnings increased by R20 million to R146 million. This increase was primarily attributable to management bonuses being accrued in the current year against a zero base in the prior year.

Commentary continued

Depreciation and amortisation

Depreciation, amortisation and impairment charges on continuing operations decreased by R0.5 million to R189 million. Of the latter amount, R65 million (2020: R55 million) pertained to depreciation on additional capital expenditure incurred during the year, R29 million (2020: R32 million) to depreciation raised in terms of IFRS 16 – *Leases*, R6 million (2020: R7 million) to impairments and R88 million (2020: R94 million) to the amortisation of intangible assets of which R43 million (2020: R43 million) emanated from purchase price allocations on historical acquisitions.

Net finance costs

Finance costs totalled R132 million comprising interest paid on borrowed funds of R117 million and R9 million on the unwinding on the lease liability in terms of IFRS 16. On a comparative basis, finance costs amounted to R230 million, comprising interest paid on borrowed funds of R203 million, R12 million on the unwinding on the lease liability in terms of IFRS 16 and R8 million on an imputed IFRS interest adjustment.

Finance income totalled R60 million, of which R51 million was for interest received on cash resources and R4 million on loans granted. In the prior year, interest received on cash resources amounted to R63 million, interest on loans granted amounted to R7 million, and the imputed IFRS interest adjustment on credit afforded to customers to R3 million.

Statement of financial position

Total assets increased by R1.1 billion to R11.5 billion, of which non-current assets accounted for R0.5 billion and current assets for R0.6 billion.

Non-current assets included increases in intangible assets and goodwill of R518 million, advances to customers of R121 million and other receivables of R22 million. These increases were offset by decreases in investments in and loans to associates and joint ventures of R134.5 million, financial assets at fair value through profit and loss of R29.5 million, capital expenditure net of depreciation of R4.5 million and right-of-use assets of R29 million.

Of the net increase in intangible assets and goodwill of R518 million, additions to intangible assets amounted to R693 million offset by amortisation of R170 million and disposals of R4 million. Of the total additions to intangible assets, R545 million relates to costs borne by the Group in terms of a subscription income sharing arrangement and R111 million to subscriber acquisition costs.

The net decrease of R134.5 million in investments in and loans to associates and joint ventures comprised the Group's net share of profits totalling R3 million, acquisition of an associate of R5.5 million, net loan increases of R7.4 million, offset by disposal of R127.5 million primarily relating to Blue Label Mexico, its share of the movements in the foreign currency translation reserve amounting to R8.8 million and dividends received of R14 million.

The material net increase in current assets included increases in inventory of R389 million and cash and cash equivalents of R402 million, offset by decreases in trade and other receivables of R178 million.

The stock turn from continuing operations equated to 22 days compared to 11 days for the financial year ended 31 May 2020.

The debtor's collection period from continuing operations increased to 59 days compared to 57 days for the financial year ended 31 May 2020.

Net profit attributable to equity holders amounted to R831 million, contributing to accumulated capital and reserves of R3.2 billion.

Current liabilities increased by R320 million, comprising an increase in trade and other payables of R1.4 billion. This increase was offset by decreases in financial liabilities at fair value of R366 million, financial guarantee contracts of R95 million and borrowings of R612 million. Average credit terms from continuing operations equating to 116 days compared to 94 days for the financial year ended 31 May 2021.

The decrease in financial liabilities at fair value was primarily due to the liquidity support payment of R331 million (USD20 million) to SPV2 and a foreign exchange movement of R19 million thereon. The decrease in financial guarantee contracts of R95 million was largely due to a settlement of a corporate guarantee of R54 million on behalf of Oxigen Services India, a reduction in the Group's obligations relating thereto amounting to R25 million and foreign exchange movements of R9 million thereon.

Statement of cash flows

Cash generated from trading operations totalled R1.7 billion. Working capital movements comprised an increase in trade payables of R765 million, an increase in advances to customers of R130 million and an increase in inventory of R391 million, offset by a decrease in trade receivables of R172 million. After incurring net finance costs and taxation, net cash generated from operating activities amounted to R1.5 billion.

Net cash flows utilised in investing activities amounted to R246 million, primarily attributable to the liquidity support payment of R331 million (USD20 million) to SPV2, the purchase of intangible assets of R37 million, capital expenditure of R71 million and net loans granted of R20 million. This was offset by cash inflows from the proceeds on disposal of Blue Label Mexico of R191 million, proceeds on disposal of capital assets of R8 million and dividends received from a joint venture of R14 million.

Cash flows utilised in financing activities amounted to R820 million, of which R613 million related to the net decrease in borrowings, R57 million to dividend payments to non-controlling interests, R50 million to lease payments, R54 million to the settlement of a financial guarantee and R44 million to treasury shares acquired.

Cash and cash equivalents accumulated to R2.4 billion at 31 May 2021.

Forfeitable share scheme

Forfeitable shares totalling 14 611 406 (2020: 17 636 695) were issued to qualifying employees. During the year, 2 517 085 (2020: 1 227 578) shares were forfeited and 1 174 045 (2020: 1 753 874) shares vested.

Subsequent events

Glocell Distribution Proprietary Limited

On 29 June 2021, The Prepaid Company acquired the remaining 52% shareholding in Glocell Distribution for a total purchase consideration of R137 million, of which R126 million was discharged by way of a conversion of debt owing by Glocell Proprietary Limited, the owners of 40% of the Company, to The Prepaid Company.

The balance of 12% was acquired by The Prepaid Company for R11 million. Over and above the cost of acquisition of 52% of Glocell Distribution by The Prepaid Company, the latter assumed Glocell Proprietary Limited's obligation of R105 million to Investec Bank Limited.

Banking facilities

Subsequent to year-end, The Prepaid Company renegotiated a further extension of its Investec facility to 30 September 2022, whereby the facility of R1.45 billion was increased by R105 million relating to the Glocell Proprietary Limited facility as referred to above. From December 2021, the exposure to Investec is required to be reduced by R50 million per month, with the balance owing to be no more than R1 billion.

As at 31 May 2021 the Investec facility is disclosed as current borrowings, as the extension to 30 September 2022 was only granted in August 2021.

In August 2021, CEC entered into a debt funding agreement with Investec. Its mezzanine facility with Investec was due to expire on 31 August 2021 but has been extended to 31 March 2022.

As at 31 May 2021 CEC's debt facility was disclosed as current borrowings, as the extension to 31 March 2022 was only granted in August 2021.

Commentary continued

Airvantage and AV Technology put obligations

In October 2020, the minority shareholders of Airvantage Proprietary Limited (Airvantage) and AV Technology Limited (AV Tech) exercised their rights to put their 40% shareholding therein to Blue Label Telecoms (BLT), in line with the initial agreements that were concluded between the parties in 2017. The purchase consideration under the put options, as determined by the parties in December 2020, for the 40% shareholdings in Airvantage and AV Tech, amounted to R152 million and USD4.6 million respectively (purchase price).

In February 2021, the parties concluded an agreement legislating for a deferral of the purchase price payable to the minority shareholders of Airvantage and the minority shareholder of AV Tech from 31 December 2020 to 31 March 2021, with subsequent extensions being granted, payable in six equal monthly instalments, inclusive of interest, commencing on 30 November 2021.

If Cell C Limited is able to pass a solvency and liquidity test, the primary obligation in respect of the put options can be transferred to Digital Ecosystems Proprietary Limited (DE), formerly Blue Label Mobile Proprietary Limited, in terms of the agreement concluded with it in September 2019.

An agreement between BLT and DE was reached in August 2021, whereby the parties agreed that BLT's primary obligations to the minority shareholders will be transferred to DE ahead of any Cell C test in respect of its solvency and liquidity. This agreement is subject to the fulfilment of certain conditions precedent.

If, however, Cell C is unable to pass the solvency and liquidity test in the future, the primary obligation in respect of the put options may revert back to BLT.

Recapitalisation facility

On 26 August 2021, The Prepaid Company Proprietary Limited, a wholly owned subsidiary of Blue Label and a shareholder of 45% of the issued share capital of Cell C Limited, has concluded a term sheet for an Airtime Purchase transaction with Investec Bank Limited, First Rand Bank Limited (acting through its Rand Merchant Bank division) and other financiers, the proceeds of which are intended to be utilised for the recapitalisation of Cell C. This arrangement is subject to the conclusion of all legal documentation and fulfilment of all conditions precedent under such legal documentation.

Independent audit

These summary consolidated financial statements for the year ended 31 May 2021 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

We are thankful to all our staff members who have adapted to new ways of working during these unprecedented times and continue to contribute to the Group's performance. The Board of Blue Label wishes to express its appreciation to its suppliers, customers and business partners for their continued support and commitment to the Group.

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 August 2021

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

Independent auditor's report on the summary consolidated 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 summarised group statement of financial position as at 31 May 2021, the summarised group income statement, summarised group 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 2021.

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 August 2021. That report also includes communication of 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.

The basis for the qualified audit opinion was an inability to obtain sufficient appropriate audit evidence to support the use of the going concern assumption in the current and prior years at the Group's equity-accounted associate, Cell C Limited (Cell C), due to the restructuring of the operations and capital structure of Cell C still being in progress and the outcome thereof remaining uncertain as at the date of this audit report. This matter only impacts the note disclosure in the audited consolidated financial statements, and has no impact on the summary consolidated financial statements.

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, 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.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: Pietro Calicchio

Registered Auditor

Johannesburg, South Africa

26 August 2021

Summarised Group income statement

for the year ended 31 May 2021

	2021 R'000	2020 R'000
Continuing operations		
Revenue	18 438 662	20 756 487
Finance revenue	382 628	378 839
Total revenue	18 821 290	21 135 326
Other income	103 684	105 273
Direct operating costs*	(16 378 665)	(18 866 243)
Finance costs incurred in the generation of revenue	(59 371)	(144 472)
Employee compensation and benefit expense	(637 387)	(512 647)
Depreciation and amortisation	(188 883)	(189 314)
Impairments and fair value movements	7 795	(364 233)
Bad debts and expected credit loss	11 900	(116 332)
Other expenses	(508 973)	(411 308)
Operating profit	1 171 390	636 050
Finance costs	(131 947)	(229 988)
Finance income	59 717	78 175
Share of gains from associates and joint ventures	2 951	16 598
Profit before taxation	1 102 111	500 835
Taxation	(249 416)	(219 752)
Profit after taxation from continuing operations	852 695	281 083
Profit/(loss) from discontinued operations	25 321	(61 976)
Profit for the year	878 016	219 107
Profit for the year from continuing operations attributable to:		
Equity holders of the parent	805 286	226 786
Non-controlling interest	47 409	54 297
Profit/(loss) for the year from discontinued operations attributable to:		
Equity holders of the parent	25 321	(102 305)
Non-controlling interest	–	40 329
Earnings per share for profit/(loss) attributable to:		
Equity holders (cents)		
– Basic	94.55	13.89
– Diluted	91.36	13.89

* Direct operating expenses are the operating expenses directly attributable to the production of goods and services sold by the Group. These include, but are not limited to, the costs associated with the acquisition of airtime and handsets sold by the Group.

Summarised Group statement of comprehensive income

for the year ended 31 May 2021

	2021 R'000	2020 R'000
Net profit for the year	**878 016**	219 107
Other comprehensive income:		
Items reclassified to profit or loss		
Foreign currency translation reserve reclassified to profit or loss*	**(52 538)**	(53 535)
Loss arising on changes in fair value of hedging instruments (ineffective portion)**	**(45)**	—
Loss on hedging instruments reclassified to profit or loss (effective portion)**	**(1 001)**	—
Income tax related to amounts reclassified to profit or loss	**293**	—
Items that may be subsequently reclassified to profit or loss		
Foreign exchange (loss)/profit on translation of associates and joint ventures*	**(8 826)**	19 091
Foreign exchange profit on translation of foreign operations*	**—**	36 089
Gain arising on changes in fair value of hedging instruments (effective portion)	**7 751**	—
Income tax related to gains recognised in other comprehensive income	**(2 170)**	—
Other comprehensive (loss)/income for the year, net of tax	**(56 536)**	1 645
Total comprehensive income for the year	**821 480**	220 752
Total comprehensive income for the year attributable to:		
Equity holders of the parent	**774 071**	113 031
Non-controlling interest	**47 409**	107 721
Total comprehensive income/(loss) for the year attributable to equity holders of the parent arises from:	**774 071**	113 031
Continuing operations	**748 750**	247 406
Discontinued operations	**25 321**	(134 375)

* These components of other comprehensive income do not attract any tax.
** These items are included in finance costs.

Summarised Group statement of financial position

as at 31 May 2021

	31 May 2021 R'000	31 May 2020 R'000
ASSETS		
Non-current assets	**2 821 283**	2 357 620
Property, plant and equipment	**194 193**	198 688
Right-of-use assets	**58 746**	87 852
Intangible assets	**1 051 627**	533 853
Goodwill	**681 754**	681 243
Investments in and loans to associates and joint ventures	**62 996**	197 455
Loans receivable	**44 232**	36 516
Advances to customers	**570 456**	449 825
Financial assets at fair value through profit or loss	**75 342**	104 829
Financial assets at fair value through other comprehensive income	**6 915**	—
Deferred taxation assets	**75 022**	67 359
Current assets	**8 629 196**	7 996 086
Loans to associate	**15 369**	9 488
Inventories	**965 946**	576 950
Loans receivable	**25 572**	35 604
Trade and other receivables	**3 752 019**	3 929 743
Advances to customers	**1 241 832**	1 232 250
Financial asset at fair value through profit and loss	**143 797**	144 709
Current tax assets	**67 336**	52 425
Cash and cash equivalents	**2 417 325**	2 014 917
Total assets	**11 450 479**	10 353 706
EQUITY AND LIABILITIES		
Capital and reserves	**3 233 348**	2 485 117
Issued share capital and premium	**7 543 436**	7 573 586
Other reserves	**(2 732 783)**	(2 689 960)
Retained earnings	**(1 612 386)**	(2 442 993)
Total ordinary shareholders' equity	**3 198 267**	2 440 633
Non-controlling interest	**35 081**	44 484
Non-current liabilities	**237 563**	208 689
Deferred taxation liabilities	**194 520**	124 990
Non-current lease liability	**40 265**	80 921
Borrowings	**2 778**	2 778
Current liabilities	**7 979 568**	7 659 900
Trade and other payables	**6 052 849**	4 611 643
Lease liability	**32 860**	60 202
Financial guarantee contracts	**105 621**	201 474
Provisions	**500**	29 534
Financial liabilities at fair value through profit and loss	**68 742**	435 086
Current tax liabilities	**14 504**	5 386
Borrowings	**1 704 374**	2 316 383
Bank overdraft	**118**	192
Total equity and liabilities	**11 450 479**	10 353 706

Summarised Group statement of changes in equity
for the year ended 31 May 2021

	Issued share capital and premium R'000	Retained earnings R'000	Other reserves R'000	Total ordinary share-holders' equity R'000	Non-controlling interest R'000	Total equity R'000
Balance as at 1 June 2019	7 599 016	(2 405 031)	(2 824 740)	2 369 245	122 317	2 491 562
Net profit for the year	—	124 481	—	124 481	94 626	219 107
Other comprehensive income/(loss)	—	—	(11 450)	(11 450)	13 095	1 645
Total comprehensive income/(loss)	—	124 481	(11 450)	113 031	107 721	220 752
Treasury shares purchased	(46 352)	—	—	(46 352)	—	(46 352)
Equity compensation benefit scheme shares vested	20 922	—	(20 582)	340	(340)	—
Equity compensation benefit movement	—	(7 093)	16 332	9 239	119	9 358
Transaction with non-controlling interest reserve movement*	—	(156 750)	156 750	—	—	—
Non-controlling interest acquired	—	—	(18 105)	(18 105)	17 590	(515)
Blue Label Mobile restructure	—	—	13 235	13 235	21 200	34 435
Non-controlling interest disposed of	—	—	—	—	(156 654)	(156 654)
Share-based payment reserve recycled to retained earnings	—	1 400	(1 400)	—	—	—
Dividends paid	—	—	—	—	(67 469)	(67 469)
Balance as at 31 May 2020	7 573 586	(2 442 993)	(2 689 960)	2 440 633	44 484	2 485 117
Net profit for the year	**—**	**830 607**	**—**	**830 607**	**47 409**	**878 016**
Other comprehensive loss	**—**	**—**	**(56 536)**	**(56 536)**	**—**	**(56 536)**
Total comprehensive income/(loss)	**—**	**830 607**	**(56 536)**	**774 071**	**47 409**	**821 480**
Treasury shares purchased	**(43 924)**	**—**	**—**	**(43 924)**	**—**	**(43 924)**
Equity compensation benefit scheme shares vested	**13 774**	**—**	**(13 471)**	**303**	**(303)**	**—**
Equity compensation benefit movement	**—**	**—**	**27 184**	**27 184**	**639**	**27 823**
Dividends paid	**—**	**—**	**—**	**—**	**(57 148)**	**(57 148)**
Balance as at 31 May 2021	**7 543 436**	**(1 612 386)**	**(2 732 783)**	**3 198 267**	**35 081**	**3 233 348**

* The majority of this amount relates to the derecognition of the transaction with non-controlling interest reserve on the effective date of the VAS Operations disposal. Refer to the note on discontinued operations.

Summarised Group statement of cash flows
for the year ended 31 May 2021

	2021 R'000	2020 R'000
Cash flows from operating activities		
Cash received from customers	**18 988 312**	23 539 462
Cash paid to suppliers, financiers and employees	**(17 248 453)**	(21 836 971)
Cash generated by operations	**1 739 859**	1 702 491
Interest received	**59 719**	93 053
Interest paid	**(126 780)**	(214 166)
Taxation paid	**(204 756)**	(324 553)
Net cash generated from operating activities	**1 468 042**	1 256 825
Cash flows from investing activities		
Acquisition of intangible assets*	**(36 704)**	(31 093)
Proceeds on disposal of intangible assets	**4 301**	19 038
Acquisition of property, plant and equipment	**(71 214)**	(139 430)
Proceeds on disposal of property, plant and equipment	**4 115**	15 150
Acquisition of subsidiary, net of cash acquired	**83**	206
Proceeds from disposal of shares in subsidiary, net of cash disposed	**–**	698 335
Proceeds from disposal of shares in joint ventures	**190 555**	–
Liquidity support granted	**(331 000)**	–
Loans advanced to associates and joint ventures	**(52 259)**	(5 369)
Loans repaid by associates and joint ventures	**39 204**	17 888
Dividend received from associate and joint venture	**14 000**	6 100
Loans granted	**(74 274)**	(185 635)
Loans receivable repaid	**67 520**	58 430
Net cash (utilised in)/generated by investing activities	**(245 673)**	453 620
Cash flows from financing activities		
Interest-bearing borrowings raised	**152 007**	31 487
Interest-bearing borrowings repaid	**(751 053)**	(911 836)
Non-interest-bearing borrowings raised	**270**	170
Non-interest-bearing borrowings repaid	**(13 959)**	(22 094)
Proceeds from dilution of shares in subsidiary**	**–**	34 435
Principal lease repayments	**(49 900)**	(53 210)
Settlement of financial guarantee	**(53 285)**	(44 190)
Settlement of forward exchange contracts	**(2 895)**	–
Acquisition of treasury shares	**(43 924)**	(46 352)
Dividends paid to non-controlling interest	**(57 148)**	(67 469)
Net cash utilised in financing activities	**(819 887)**	(1 079 059)
Net increase in cash and cash equivalents	**402 482**	631 386
Cash and cash equivalents at the beginning of the year	**2 014 725**	1 377 753
Exchange gains on cash and cash equivalents	**–**	5 586
Cash and cash equivalents at the end of the year	**2 417 207**	2 014 725

* Significant non-cash transactions amounting to R656 million during the 2021 financial year comprise the additions to the subscription income sharing arrangement and the subscriber acquisition costs. Refer to note 4.2 in the Group annual financial statements. Payments are expected to be made during the 2022 financial year and will be presented as cash flows from investing activities.

** This relates to Malik Investment Holdings Proprietary Limited's subscription for a further 4.51% in Blue Label Mobile Holdings Proprietary Limited. Refer to the note on discontinued operations.

Refer to the note on discontinued operations for the cash flows included above that relate solely to discontinued operations.

Share performance

for the year ended 31 May 2021

Use of adjusted measures

The measures listed below are presented as management believes it to be relevant to the understanding of the Group's financial performance. These measures are used for internal performance analysis and provide additional, useful information on underlying trends to equity holders. These measures are not defined terms under IFRS and may therefore not be comparable with similarly titled measures reported by other entities. It is not intended to be a substitute for, or superior to, measures as required by IFRS.

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

	Total			
	Attributable earnings		Cents per share	
	2021 R'000	2020 R'000	**2021**	2020
Headline earnings per share				
Basic	**756 917**	521 313	**86.16**	58.16
Diluted	**756 917**	521 313	**83.26**	57.44
Core	**787 580**	562 132	**89.65**	62.71
Earnings attributable to ordinary equity holders				
Basic	**830 607**	124 481	**94.55**	13.89
Diluted	**830 607**	124 481	**91.36**	13.89

(b) Weighted average number of shares

	2021 '000	2020 '000
Weighted average number of ordinary shares	**878 463**	896 409
Adjusted for forfeitable shares	**31 334**	16 683
Weighted average number of ordinary shares for diluted earnings	**909 797**	913 092

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

(c) Analysis of headline earnings

	Total			
	Profit/ (loss) before tax and non-controlling interest R'000	**Tax R'000**	**Non-controlling interest R'000**	**Headline earnings R'000**
2021				
Profit attributable to equity holders of the parent	**1 136 968**	**(258 952)**	**(47 409)**	**830 607**
Profit on disposal of property, plant and equipment	**(1 016)**	**284**	**–**	**(732)**
Impairment of property, plant and equipment	**5 559**	**(1 557)**	**–**	**4 002**
Impairment of intangible assets	**754**	**(211)**	**–**	**543**
Profit on disposal of joint venture	**(26 955)**	**–**	**–**	**(26 955)**
Loss on disposal of joint venture	**1 990**	**–**	**–**	**1 990**
Foreign currency translation reserve (FCTR) recycled on the disposal of investment in joint venture	**(52 538)**	**–**	**–**	**(52 538)**
Headline earnings				**756 917**

	Continuing operations				Discontinued operations			
	Attributable earnings		Cents per share		Attributable earnings		Cents per share	
	2021 R'000	2020 R'000	2021	2020	2021 R'000	2020 R'000	2021	2020
	731 936	436 747	**83.32**	48.73	**24 981**	84 566	**2.84**	9.43
	731 936	436 747	**80.51**	47.83	**24 981**	84 566	**2.75**	9.43
	762 599	469 113	**86.81**	52.33	**24 981**	93 019	**2.84**	10.38
	805 286	226 786	**91.67**	25.30	**25 321**	(102 305)	**2.88**	(11.41)
	805 286	226 786	**88.58**	24.84	**25 321**	(102 305)	**2.79**	(11.41)

	Continuing operations				Discontinued operations			
	Profit/(loss) before tax and non-controlling interest R'000	Tax R'000	Non-controlling interest R'000	Headline earnings R'000	Profit/(loss) before tax and non-controlling interest R'000	Tax R'000	Non-controlling interest R'000	Headline earnings R'000
	1 102 111	(249 416)	(47 409)	805 286	34 857	(9 536)	–	25 321
	(544)	152	–	(392)	(472)	132	–	(340)
	5 559	(1 557)	–	4 002	–	–	–	–
	754	(211)	–	543	–	–	–	–
	(26 955)	–	–	(26 955)	–	–	–	–
	1 990	–	–	1 990	–	–	–	–
	(52 538)	–	–	(52 538)	–	–	–	–
				731 936				24 981

Share performance continued

for the year ended 31 May 2021

(c) Analysis of headline earnings continued

	Total			
	Profit/(loss) before tax and non-controlling interest R'000	Tax R'000	Non-controlling interest R'000	Headline earnings R'000
2020				
Profit/(loss) attributable to equity holders of the parent	518 349	(299 242)	(94 626)	124 481
Profit on disposal of property, plant and equipment and intangible assets	(13 460)	3 769	280	(9 411)
Impairment of property, plant and equipment	65 701	(2 044)	—	63 657
Impairment of leased assets	30 712	—	—	30 712
Profit on disposal of subsidiary	(528)	—	—	(528)
Impairment of disposal groups	53 232	—	—	53 232
Impairment of goodwill	259 170	—	—	259 170
Headline earnings				521 313

(d) Analysis of core headline earnings

	Total 2021 R'000	2020 R'000
Reconciliation between net profit for the period and core headline earnings for the period:		
Net profit/(loss) for the period	**830 607**	124 481
Amortisation of intangibles raised through business combinations net of tax and non-controlling interest	**30 663**	40 819
Core net profit/(loss) for the period	**861 270**	165 300
Headline earnings adjustments	**(73 690)**	396 832
Core headline earnings	**787 580**	562 132

Continuing operations				Discontinued operations			
Profit/ (loss) before tax and non-controlling interest R'000	Tax R'000	Non-controlling interest R'000	Headline earnings R'000	Profit/ (loss) before tax and non-controlling interest R'000	Tax R'000	Non-controlling interest R'000	Headline earnings R'000
500 835	(219 752)	(54 297)	226 786	17 514	(79 490)	(40 329)	(102 305)
(12 589)	3 525	183	(8 881)	(871)	244	97	(530)
7 303	(2 044)	—	5 259	58 398	—	—	58 398
—	—	—	—	30 712	—	—	30 712
—	—	—	—	(528)	—	—	(528)
—	—	—	—	53 232	—	—	53 232
213 583	—	—	213 583	45 587	—	—	45 587
			436 747				84 566

Continuing operations 2021 R'000	2020 R'000	Discontinued operations 2021 R'000	2020 R'000
805 286	226 786	**25 321**	(102 305)
30 663	32 366	**—**	8 453
835 949	259 152	**25 321**	(93 852)
(73 350)	209 961	**(340)**	186 871
762 599	469 113	**24 981**	93 019

Segmental summary

	Total 2021 R'000	Africa Distribution 2021 R'000	Inter-national 2021 R'000	Mobile 2021 R'000	Solutions 2021 R'000	Corporate 2021 R'000
Continuing operations						
Total segment revenue	26 524 093	26 177 843	–	–	186 145	160 105
Internal revenue	(7 702 803)	(7 536 312)	–	–	(6 386)	(160 105)
Revenue	18 821 290	18 641 531	–	–	179 759	–
Operating profit/(loss) before depreciation and amortisation	1 360 273	1 374 735	50 825	–	16 746	(82 033)
Profit/(loss) for the year from continuing operations attributable to equity holders of the parent	805 286	820 819	68 021	–	21 411	(104 965)
Profit from discontinued operations attributable to equity holders of the parent	25 321	25 321	–	–	–	–
Profit/(loss) for the year attributable to equity holders of the parent	830 607	846 140	68 021	–	21 411	(104 965)
Amortisation of intangibles raised through business combinations net of tax and non-controlling interest	30 663	30 663	–	–	–	–
Headline earnings adjustment	(73 690)	3 859	(79 493)	–	–	1 944
Core headline earnings for the year	787 580	880 662	(11 472)	–	21 411	(103 021)

	Total 2020 R'000	Africa Distribution 2020 R'000	Inter-national 2020 R'000	Mobile 2020 R'000	Solutions 2020 R'000	Corporate 2020 R'000
Continuing operations						
Total segment revenue	30 818 506	30 165 762	–	–	191 830	460 914
Internal revenue	(9 683 180)	(9 219 540)	–	–	(2 726)	(460 914)
Revenue	21 135 326	20 946 222	–	–	189 104	–
Operating profit/(loss) before depreciation and amortisation	825 364	931 175	19 474	–	40 330	(165 615)
Profit/(loss) for the year from continuing operations attributable to equity holders of the parent	226 786	375 952	6 071	–	40 913	(196 150)
(Loss)/profit from discontinued operations attributable to equity holders of the parent	(102 305)	(261 707)	14 617	144 785	–	–
Profit/(loss) for the year attributable to equity holders of the parent	124 481	114 245	20 688	144 785	40 913	(196 150)
Amortisation of intangibles raised through business combinations net of tax and non-controlling interest	40 819	36 357	3 835	627	–	–
Headline earnings adjustment	396 832	372 374	(2 908)	27 369	(3)	–
Core headline earnings for the year	562 132	522 976	21 615	172 781	40 910	(196 150)

Discontinued operations

The current segmental results account for the discontinued operations within the Africa Distribution segment (WiConnect) and the prior year for the discontinued operations within the Africa Distribution segment (3G Mobile, Airvantage and WiConnect), the Mobile segment (Cellfind, Panacea, Simigenix and Viamedia) and the International segment (AV Technology and Airvantage Brazil).

Revenue

	Total		Africa Distribution		Solutions	
	2021 R'000	2020 R'000	2021 R'000	2020 R'000	2021 R'000	2020 R'000
Revenue from contracts with customers	18 159 335	20 756 487	17 979 576	20 567 383	179 759	189 104
Prepaid airtime, data and related revenue	16 370 708	18 842 481	16 370 708	18 842 481	–	–
Postpaid airtime, data and related revenue	103 656	137 922	103 656	137 922	–	–
Prepaid and postpaid SIM cards	532 073	634 809	532 073	634 809	–	–
Services	344 603	319 623	164 844	130 519	179 759	189 104
Electricity commission	350 912	358 728	350 912	358 728	–	–
Handsets, tablets and other devices	199 246	262 926	199 246	262 926	–	–
Other revenue	258 137	199 998	258 137	199 998	–	–
Subscription income share	279 327	–	279 327	–	–	–
Revenue	18 438 662	20 756 487	18 258 903	20 567 383	179 759	189 104
Finance revenue	382 628	378 839	382 628	378 839	–	–
Total revenue	18 821 290	21 135 326	18 641 531	20 946 222	179 759	189 104

Revenue generating entities accounted for as discontinued operations that were previously disclosed within the Africa, Mobile and International segments are not included in current or prior period revenue per the Group statement of comprehensive income. The Mobile and International segments have been excluded from the above table as the only revenue generating entities that were accounted for within these segments were part of the VAS Operations that were accounted for as discontinued operations and disposed of in the prior year. Refer to the note on discontinued operations.

Cell C Limited

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

As at 31 May 2019, the Group's investment in Cell C was impaired to nil. It remains at nil as at 31 May 2021.

Critical accounting judgements and assumptions

Going concern of Cell C

For purposes of the Group's annual financial statements for the year ended 31 May 2021, Cell C has been accounted for using the going concern assumption. Based on the following facts available, management is of the opinion that Cell C will continue as a going concern for the foreseeable future:

- Cell C concluded the national roaming agreement on 7 August 2019, which became effective on 4 May 2020. This agreement is one of the key pillars in Cell C's transformation plan, as well as its long-term network strategy to optimise operating costs and reduce capital outlay as part of the turnaround strategy.
- The Board of Cell C established a liquidity committee to monitor the liquidity position of Cell C and to ensure that the business is not trading recklessly during the negotiations of the recapitalisation and debt restructure. Although the liquidity position of Cell C remains challenging, Cell C has proven that it has managed to continue trading despite the liquidity concerns and management is confident that this committee will manage the liquidity position of Cell C until the conclusion of the recapitalisation process.
- Cell C appointed independent financial restructuring advisers to assist in stringent monitoring of the liquidity of Cell C, as well as designing the revised business plans that support the new operating business model.
- Management remains optimistic that the planned recapitalisation of Cell C will be successful. The recapitalisation is important to improve the capital structure of the Company and the deferral of repayments that will support the long-term sustainability of Cell C. Stakeholders have appointed independent advisers to assist with the recapitalisation and/or debt restructuring process and formal engagements are ongoing.
- Cell C embarked on a strategy to reconsider its current service offering, whereby Cell C identified the need to either wind down or restructure the service offering being provided to its postpaid mobile telecommunication business (the base). During the 2021 financial year, the Group, through its subsidiary Comm Equipment Company (CEC), entered into an arrangement with Cell C to facilitate Cell C's operation of the base. The agreement commenced on 1 November 2020 for an initial period of five years, with CEC having the right to renew for a further four years. CEC is entitled to receive a share of the subscription income generated by Cell C from a subset of postpaid subscribers that sign up, extend or upgrade their subscriptions with Cell C after 1 November 2020 (New and Upgrade subscribers) plus certain fixed and variable payments. Cell C will remain entitled to the subscription income of existing subscribers at 31 October 2020 for the remainder of the subscribers' contract and a share of the ongoing revenue of New and Upgrade subscribers. The aim of the reorganisation would be for the base to remain intact and grow in the future, and for Cell C to have limited downside risk on the base.

On 4 August 2020 Cell C notified its noteholders that it defaulted on the payment of capital on its USD184 002 000 note which was due on 2 August 2020, as well as interest and capital repayments related to the respective bilateral loan facilities between Cell C and Nedbank Limited, China Development Bank Corporation, Development Bank of Southern Africa Limited and Industrial and Commercial Bank of China Limited, which were due in January and July 2020.

Currently, none of the bilateral loan facilities have been accelerated as noteholders are aware and support that Cell C is committed to resolving the situation by agreeing to restructuring terms with its lenders while it continues to work proactively with all stakeholders to improve its liquidity, debt profile and long-term competitiveness.

Management and the directors have taken the default into consideration as part of their overall assessment of the going concern principle for Cell C, and are of the view that the going concern assumption is still applicable. The default does not change any judgements or assumptions made in the financial assumptions that are dependent on the continued operation of Cell C as a going concern.

Although no certainty exists around the successful implementation of the recapitalisation, management remains optimistic. Refer to the discontinued operations note detailing the fair value of the contingent consideration receivable for the probability applied by management in determining Cell C's liquidity and solvency.

Classification of Cell C Limited as an associate

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

The arrangement between Cell C and CEC as described in note 4.2 of the annual financial statements has not altered the decision making power of the Group over Cell C. Therefore the Group continues to account for Cell C as an associate.

Impairment of Cell C

TPC's equity share of the value of Cell C as at 31 May 2021 remained at nil value. The key assumptions applied in determining the value-in-use calculations are as follows:

	May 2021			May 2020		
	Average EBITDA margin %	**Terminal growth rate %**	**Discount rate %**	Average EBITDA margin %	Terminal growth rate %	Discount rate %
Cell C Limited	**19.9**	**4.0**	**18.8**	22.6	4.0	19.6

An independent third-party valuation specialist was appointed to determine the value of Cell C based on cash flow projections incorporated in the five-year Cell C business plan. Assumptions relating to the business, the industry and economic growth were applied. Cash flows beyond this point were then extrapolated, applying terminal growth rates that did not exceed the expected long-term economic growth rate for the markets in which Cell C operates. The discount rates used are pre-tax and reflect specific risks related to Cell C. The valuation does not take into account the effects of any planned future restructuring or recapitalisation.

TPC's equity share of the value as at 31 May 2021 remained Rnil, however, there was an overall positive impact on value compared to the prior year, attributable to the following:
(a) A decrease in interest-bearing borrowings due to favourable exchange rate fluctuations.
(b) A slight decrease in the WACC.
(c) A slightly quicker utilisation of the assessed tax loss.

The above positives to value were offset to some extent by a decrease in the EBITDA margin and increases in both net working capital requirements and capital expenditure, which had the effect of reducing the forecast cash flows.

Summarised financial information

Principal activity: Mobile network
Country of incorporation: South Africa

Financial year-end: 31 December*

	31 May 2021 R'000	31 May 2020 R'000
Statement of financial position		
Non-current assets	**13 565 997**	10 674 432
Current assets	**6 228 984**	4 966 723
	19 794 981	15 641 155
Total equity	**(5 559 338)**	(8 012 705)
Non-current liabilities	**5 800 315**	4 844 963
Current liabilities	**19 554 004**	18 808 897
	19 794 981	15 641 155
Effective percentage held (%)	**45**	45
Net assets	**(5 559 338)**	(8 012 705)
Company net assets	**(12 859 268)**	(15 312 635)
Carrying value of purchase price allocations net of deferred taxation	**7 299 930**	7 299 930
Interest in associate	**(2 501 702)**	(3 605 717)
Goodwill	**1 317 776**	1 317 776
Accumulated impairment	**(2 521 152)**	(2 521 152)
Accumulated losses not guaranteed	**3 705 078**	4 809 093
Balance at the end of the year	**—**	—

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

Cell C Limited continued

Statement of comprehensive income for the year ended*

	1 June 2020 to 31 May 2021	1 June 2019 to 31 May 2020
Revenue	**13 954 861**	14 593 152
Net profit/(loss) before taxation	**2 363 748**	(10 686 875)
Taxation	**89 619**	—
Net profit/(loss) after taxation	**2 453 367**	(10 686 875)
Other comprehensive income	**—**	—
Not guaranteed	**(2 453 367)**	10 686 875
Total comprehensive income	**—**	—
Effective percentage held	**45**	45
Share of total comprehensive income	**—**	—

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

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 would be required to purchase such inventory from the consortium on a piecemeal basis over a specified period that was agreed upon. These purchases would be made in lieu of purchases that would have been made from Cell C within that period.

An extension was concluded on 31 May 2020 with an agreed quantum of airtime purchases required to be made by The Prepaid Company on a monthly basis. This would have resulted in the Cell C facility reducing to nil by 31 March 2021. However, as at 31 May 2021, the above funding had declined to R182 million (May 2020: R959 million) as a result of The Prepaid Company purchasing from the security airtime. This outstanding balance will be paid by way of The Prepaid Company purchasing approximately R35 million per month from the security airtime, commencing June 2021.

It is the intention of TPC to accelerate payments to the banking consortium in order to distribute the vault stock in full if there is risk/indication that Cell C will not be able to meet its obligations to the banking consortium. 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 above mentioned inventory from the consortium, acceleration of such payments could well result in the debt being expunged within one and a half months through its trading capabilities in the ordinary course of business at normal operating margins.

Financial guarantee contracts

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

	2021 R'000	2020 R'000
Opening balance	**201 474**	243 492
Foreign exchange movement	**(9 113)**	10 166
Additional liability raised during the year through profit or loss – continuing operations	**–**	671
Used during the year	**(53 285)**	(44 190)
Amounts released through profit or loss – continuing operations	**(33 455)**	(8 500)
Amounts released through profit or loss – discontinued operations	**–**	(165)
Closing carrying amount	**105 621**	201 474

The financial guarantee contract obligation of USD5 million (R87.6 million) to RBL Bank Limited was affected favourably by the strengthening of the rand to the US dollar during the year, resulting in a foreign exchange gain of R9.1 million. USD3.25 million (R53.3 million) of this obligation was called upon by RBL Bank and settled in the current financial period. The balance of this obligation, amounting to USD1.75 million (R25.2 million), was released by RBL Bank Limited and thus, recognised in profit and loss. No further obligation remains.

An amount of R105 million (2020: R113.2 million) is owed to Investec Limited by Glocell Proprietary Limited, and has been guaranteed by Glocell Distribution Proprietary Limited should the former not be able to meet its obligations.

The Group has not raised a liability for its guarantee to the consortium of financial institutions in respect of Cell C's funding of R182 million (2020: R959 million) due to the fact that it holds sufficient collateral, which the Group expects to realise should the guarantee be called upon and the residual financial risk not be material. Refer to note on Cell C Limited.

Financial instruments at fair value through profit or loss

Financial instruments at fair value through profit or loss are classified as level 3 instruments in the fair value hierarchy. Changes in level 3 instruments are as follows:

	Bond notes (SPV1) R'000	Liquidity support (SPV2) R'000	Loans receivable R'000
Balance as at 1 June 2019	–	(301 716)	202 267
Additions	–	–	–
Repayments	–	–	–
Derecognition of put option liability on disposal of VAS Operations	–	–	–
Fair value (loss)/gain recognised in profit or loss	–	(48 694)	(66 371)
Other movements	–	–	(9 292)
Balance as at 31 May 2020	**–**	**(350 410)**	**126 604**
Additions	**–**	**–**	**–**
Repayments	**–**	**331 000**	**–**
Fair value gain/(loss) recognised in profit or loss	**–**	**19 410**	**–**
Other movements	**–**	**–**	**–**
Balance as at 31 May 2021	**–**	**–**	**126 604**
Financial assets at fair value through profit or loss – included in current assets	**–**	**–**	**126 604**
Financial assets at fair value through profit or loss – included in non-current assets	**–**	**–**	**–**
Financial liabilities at fair value through profit or loss – included in current liabilities	**–**	**–**	**–**
Closing balance	**–**	**–**	**126 604**
Unrealised (losses)/gains			
	–	**–**	**–**

Bond notes and liquidity support

With effect from 2 August 2017, TPC purchased bond notes, issued by Cedar Cellular Investments 1 Proprietary Limited (SPV1), from Saudi Oger Limited with a capital redemption value of USD42 million and with a coupon rate of 8.625% per annum for a purchase consideration of USD18 million. TPC was entitled to assign its rights and obligations, in whole or in part, to a nominee. Accordingly, it has assigned such rights and obligations in respect of 50% of the bond notes, resulting in an effective purchase consideration of USD9 million with a capital redemption value of USD21 million.

As part of the restructure of the debt into Cell C by third-party lenders, TPC was 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 was provided over 24 months in the form of subordinated funding to SPV2. Oger Telecoms contributed USD36 million of the aforesaid USD80 million, thus reducing TPC's obligation in this regard to a maximum of USD44 million. As at 31 May 2021, the Group has contributed the full USD44 million to SPV2.

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 is 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 level 3 instruments in the fair value hierarchy.

The derivatives are not traded in an active market and therefore the fair value is determined by the use of a valuation technique. In previous years, the valuation was performed using a Monte Carlo simulation taking into account the value of Cell C Limited. As no value was subsequently attributed to Cell C, the recoverable

Put option liability R'000	Derivative liability R'000	Surety loan receivable R'000	Other R'000	Total R'000
(158 638)	—	85 003	2 472	(170 612)
(7 654)	(77 524)	—	34 500	(50 678)
—	—	—	(18 877)	(18 877)
214 559	—	—	—	214 559
(48 267)	—	19 826	(7 142)	(150 648)
—	—	—	—	(9 292)
—	**(77 524)**	**104 829**	**10 953**	**(185 548)**
—	**—**	**—**	**(565)**	**(565)**
—	**—**	**—**	**3 460**	**334 460**
—	**9 346**	**(21 116)**	**3 692**	**11 332**
—	**—**	**—**	**(9 282)**	**(9 282)**
—	**(68 178)**	**83 713**	**8 258**	**150 397**
—	**—**	**8 371**	**8 822**	**143 797**
—	**—**	**75 342**	**—**	**75 342**
—	**(68 178)**	**—**	**(564)**	**(68 742)**
—	**(68 178)**	**83 713**	**8 258**	**150 397**
	9 346	**(21 116)**	**3 692**	**(8 078)**
	—	**—**	**—**	**—**

value relating to SPV1 and SPV2 reduced to zero. A liability of USD20 million, in line with the liquidity support obligation to SPV2 and included in financial liabilities at "fair value through profit and loss" was payable as at 31 May 2020 and has since been settled by a payment of R331 million, reducing the liability to zero. As at 31 May 2021, no value was attributed to Cell C Limited and as a result thereof, the value of SPV1 and SPV2 remains at zero.

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 to TPC. The right to enforce this pledge is currently not exercisable. This right only becomes exercisable once Glocell has settled its outstanding debt of R105.0 million (2020: R113.2 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 Glocell defaults on the loan, the only recourse the Group has is to the shares of Glocell Distribution held by Glocell. As such, the financial instrument has been classified and measured at fair value through profit or loss.

No fair value adjustment (2020: R75.7 million) of the R126.6 million (2020: R202 million) owing to TPC was required in the current financial year. The prior year downward adjustment was required due to unfavourable trading conditions, with specific reference to starter packs, exacerbated by the impact of Covid-19 on Glocell Distribution's financial performance.

Financial instruments at fair value through profit or loss continued

Loans at fair value continued

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.

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

Key assumptions applied to value-in-use calculation

	2021 %	2020 %
Discount rate (pre-tax)	**20.8**	21.0
Terminal growth rate	**5.0**	4.5

Effect on fair value due to change in key assumption	%	(Decrease)/increase in loan at fair value 2021 R'000	2020 R'000
Change in discount rate	1	**(11 689)**	(12 147)
	(1)	**13 867**	14 414
Change in terminal growth rate	2	**20 269**	21 048
	(2)	**(14 442)**	(14 994)

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, where the risks and rewards reside with the non-controlling interest, 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 equity profit and loss. The Group recognises the non-controlling interest over which a put option exists at acquisition date. Where a put option liability is substantially modified it is accounted for as an extinguishment of the original financial liability under IFRS 9 and, to the extent applicable, a new financial liability is recognised. The difference arising between the carrying amount of original financial liability and the fair value of the new financial instrument is recognised in profit and loss.

Critical accounting judgements and assumptions

Management assessed on initial recognition of the put option liability that the risks and rewards of ownership remained with the non-controlling interest and therefore no adjustment was required to the non-controlling interest.

Derivative liability

The derivative liability relates to the put option liability for Airvantage. As explained under the heading Financial performance and cash flow information in the note on discontinued operations, significant management judgement was applied in determining the extent that the exercise price does not represent the fair value of the underlying shares.

In October 2020, the minority shareholders of Airvantage and AV Tech exercised their rights to put their 40% shareholding therein to Blue Label Telecoms (BLT), in line with the initial agreements that were concluded between the parties in 2017. The purchase consideration under the put options, as determined by the parties in December 2020, for the 40% shareholdings in Airvantage and AV Tech, amounted to R152 million and USD4.6 million respectively (purchase price).

In February 2021, the parties concluded an agreement legislating for a deferral of the purchase price payable to the minority shareholders of Airvantage and AV Tech from 31 December 2020 to 31 March 2021, payable in six equal monthly instalments, inclusive of interest, commencing on 31 March 2021. In May 2021, the parties concluded an amendment to the agreement legislating for a deferral of the purchase price payable to the minority shareholders of Airvantage and AV Tech from 31 March 2021 to 31 August 2021, payable in six equal monthly instalments, inclusive of interest, commencing on 31 August 2021.

If Cell C Limited is able to pass a solvency and liquidity test, the primary obligation in respect of the put options can be transferred to DE, formerly Blue Label Mobile Proprietary Limited, in terms of the agreement concluded with it in September 2019.

The amount at which the put and call options were contractually determined based on the 31 May 2020 audited results at a six times net profit after tax multiple. This formula has been used in determining the total value of the put option liability. As the VAS Operations disposal group (which included Airvantage and AV Technology) was sold at a similar net profit after tax multiple, the multiple is deemed to be representative of a fair market multiple to be used in calculating the value of the shares. However, management has taken into account the adverse impact on Airvantage's operations should the solvency and liquidity of Cell C remain unproven, since the Airvantage business is largely dependent on Cell C. Therefore the derivative has been measured at the difference between the fair value of Airvantage and the exercise price of the put option. Accordingly, these inputs are level 3 inputs per the fair value hierarchy.

The same facts and circumstances were taken into account in this accounting judgement as were taken into account in note on Cell C Limited "Critical accounting judgement and assumptions – Going concern of Cell C" with management concluding the following:

Total value of Airvantage put option liability in USD'000 as agreed to by the parties	10 138
Total value of Airvantage put option liability in R'000 as agreed by the parties	139 140
Attributed probability percentage of the solvency and liquidity of Cell C remaining unproven (B)	49%
Extent that the exercise price does not represent the fair value of the underlying shares (A x B)	68 178

Should management have attributed a 100% probability to the solvency and liquidity of Cell C being proven, the entire put option would have been considered to be at value and, as such, no liability would have been recognised. Conversely, should management have attributed a 0% probability to the solvency and liquidity of Cell C being proven, the entirety of the portion of the put option related to Airvantage would have been considered to not be at value and, as such, a liability of R139 million would have been recognised. The put option over the shares of AV Tech is considered to be at fair value as the operations and results of the entity upon which the valuation is based have remained largely unchanged and six times net profit multiple is consistent with the earnings multiple at which the shares in the entity have been disposed of as part of the VAS Operations disposal.

Surety loans receivable

Surety loans relate to the personal sureties that B Levy and M Levy signed for the loan owed by 2DFine Holdings Mauritius to Gold Label Investments Proprietary Limited. Their liability is limited to the difference between the loan owing to Gold Label Investments Proprietary Limited and the value of 16.95% of the shares in Oxigen Services India Private Limited (Oxigen Services) and 17.29% of the shares in Oxigen Online Services India Private Limited (Oxigen Online) and as such is a level 3 instrument in the fair value hierarchy. In the prior year payment terms for the surety loans were renegotiated, with the payments being agreed as instalments payable annually commencing on 30 September 2021 and ending on 30 September 2030. Based on the payment terms, nine tenths of the surety loan receivable is recognised as non-current.
In the 2019 financial year the loan owing to Gold Label Investments Proprietary Limited was impaired, and remains impaired, due to a decrease in the fair value of Oxigen Services and Oxigen Online resulting in the Group recognising a receivable on the surety claim.

Related parties

Significant related-party transactions and balances

	2021 R'000	2020 R'000	2021 R'000	2020 R'000
	Sales to related parties		**Purchases from related parties**	
Cell C Limited and its related entities*	**1 729 573**	1 395 521	**4 275 098**	3 305 045
Prepaid24 Proprietary Limited*[1]	**8 832**	12 292	**–**	–
T3 Telecoms SA Proprietary Limited*	**3 394 108**	43 923	**14 154**	26 492
I Talk Holdings Proprietary Limited*[2]	**23 756**	13 938	**12 935**	17 303
	Income received from related parties		**Expenses paid to related parties**	
Dividends received from related parties				
I Talk Holdings Proprietary Limited*[2]	**14 000**	5 000	**–**	–
Finance revenue from related parties				
Cell C Limited and its related entities*	**95 951**	108 084	**–**	–
	Loans to related parties		**Loans from related parties**	
2DFine Holdings Mauritius*#	**196 513**	249 513	**–**	–
Oxigen Services India Private Limited*#	**45 908**	57 248	**–**	–
Brett Levy	**41 857**	52 415	**–**	–
Mark Levy	**41 857**	52 415	**–**	–
T3 Telecoms SA Proprietary Limited*	**15 016**	9 053	**–**	–
Total loss allowance on loans to related parties	**(247 992)**	(315 985)	**–**	–
	Guarantees given to related parties		**Guarantees received from related parties**	
Oxigen Services India Private Limited*	**–**	87 603	**–**	–
	Lease asset due from related parties		**Lease liability due to related parties**	
Ellerine Bros. Proprietary Limited	**–**	–	**18 419**	25 297
Moneyline 311 Proprietary Limited	**–**	–	**18 419**	25 297
Uvongo Falls No 26 Proprietary Limited	**–**	–	**18 859**	27 168
	Amounts due from related parties included in trade receivables		**Amounts due to related parties included in trade payables**	
Cell C Limited and its related entities*	**1 677 193**	1 266 899	**456 902**	488 917
Oxigen Services India Private Limited*	**–**	5 876	**–**	–
Total loss allowance on trade receivables to related parties	**(5 055)**	(10 995)	**–**	–

* These entities are associates/joint ventures.
\# These loans and receivables have been fully provided for both in the current and prior year and are included as part of the total loss allowance.
[1] Prepaid24 Proprietary Limited was disposed of during the year. Transactions are disclosed up until the date of sale.
[2] I Talk Holdings Proprietary Limited was previously named United Call Centre Solutions Proprietary Limited.

Discontinued operations

Accounting policy

A discontinued operation is a component of the entity that has been disposed of or is classified as held-for-sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the income statement.

Description

Closure of WiConnect

While management had implemented a turnaround strategy at WiConnect (a fully owned subsidiary of the Group), which incorporated the strengthening of the retail management team, a refocus of product sales as well as negotiating additional rebates from the network operators and original equipment manufacturers, Covid-19 had a significant negative impact on the retail operations of WiConnect. These included increased costs of inventories as a result of a weaker rand, periods of non-trading as a result of the nationwide lockdown and consumers foregoing discretionary purchases. Given the uncertainty of the tenure of the pandemic and the resultant losses attributable thereto impacting on its financial feasibility, a decision was made on 11 May 2020 to cease the operations of the WiConnect retail stores.

Significant management judgement was applied in the preparation of the May 2020 financial statements in determining whether WiConnect is a discontinued operation by assessing whether it had effectively been ceased to be used or abandoned by year-end and also whether it represented a separate major line of business or geographical area of operations or was part of a single plan to dispose of a separate major line of business or geographical area of operations. For further information regarding management's considerations in concluding that WiConnect was a discontinued operation, please refer to the information under the "Critical accounting judgements and assumptions" heading.

Management believes that the above assessment is still applicable for the year ended 31 May 2021. The revenue, other income and expenses incurred post the 31 May 2020 year-end are congruent with the winding down of the WiConnect operations. Management has negotiated settlement terms with substantially all landlords resulting in significant savings on lease liability costs which were accounted for as modifications to the lease terms. These modifications have been recorded in the "Profit from discontinued operation" line item within the Group statement of comprehensive income. Management is in the process of recovering outstanding debts owed to WiConnect and settling trade and other sundry payables.

3G Mobile and VAS Operations disposals

On 25 September 2019, the Group announced it had entered into an agreement to dispose of its 85% shareholding in Blue Label Mobile Group Proprietary Limited as well as its 51% shareholdings in Simigenix Proprietary Limited and Panacea Proprietary Limited (together, VAS Operations), to DNI 4PL Contracts Proprietary Limited (DNI), for a purchase consideration of R450 million, inclusive of loan claims, plus the amounts which Blue Label Mobile Group Proprietary Limited has disbursed towards the acquisition of 50% of Hyve as at the transaction closing date. Of the purchase consideration of R450 million, R100 million (bearing interest at prime overdraft rates plus 2% per annum compounded on a monthly basis), is contingent upon the solvency and liquidity status of Cell C being proven. There is no set date by which this needs to be proven and the consideration would only have to be proven once. Should the solvency and liquidity never be successfully proven, then the R100 million contingent purchase price and the interest accrued thereon will be forfeited by BLT, but in lieu thereof, Blue Label Mobile will transfer 24% of the issued share capital of Airvantage and AV Tech to BLT. Prior to the effective date of the disposal of the VAS Operations, Simigenix and Panacea were sold on loan account to Blue Label Mobile Group Proprietary Limited.

Furthermore, the Group announced that it would dispose of 100% of the shares in 3G to DNI for a purchase consideration of R544 million (this disposal group will be referred to as 3G Mobile) and would distribute its shares in CEC and 3G's loan account claim against CEC to its shareholder, TPC prior to the effective date of the disposal. The associated assets and liabilities of the VAS Operations and 3G Mobile disposal groups were consequently presented as held-for-sale in the reviewed results for the half-year ended 30 November 2019.

The 3G Mobile and VAS Operations were sold with effect from 14 February 2020 and 30 April 2020 respectively.

Discontinued operations continued

Financial information relating to the various discontinued operations is set out below:

	WiConnect 1 June 2020 – 31 May 2021 R'000	Total 2021 R'000
Revenue and other income	**67 752**	**67 752**
Expenses	**(32 895)**	**(32 895)**
Profit before taxation	**34 857**	**34 857**
Taxation	**(9 536)**	**(9 536)**
Profit after taxation of discontinued operations	**25 321**	**25 321**
Other comprehensive income from discontinued operations	**—**	**—**
Total comprehensive income from discontinued operations	**25 321**	**25 321**
Profit for the period attributable to:	**25 321**	**25 321**
Equity holders of the parent	**25 321**	**25 321**
Non-controlling interest	**—**	**—**
Total comprehensive income for the period attributable to:	**25 321**	**25 321**
Equity holders of the parent	**25 321**	**25 321**
Non-controlling interest	**—**	**—**

	VAS Operations 1 June 2019– 30 April 2020 R'000	3G Mobile 1 June 2019 – 14 February 2020 R'000	WiConnect 1 June 2019 – 31 May 2020 R'000	Total 2020 R'000
Revenue and other income	413 421	1 553 611	287 298	2 254 330
Expenses	(257 594)	(1 477 988)	(539 978)	(2 275 560)
Other gains/(losses)*	110 149	(26 346)	(45 587)	38 216
Profit/(loss) before taxation	265 976	49 277	(298 267)	16 986
Taxation	(40 114)	(19 174)	(20 202)	(79 490)
Profit/(loss) after taxation of discontinued operations	225 862	30 103	(318 469)	(62 504)
(Loss)/gain on sale of the subsidiary after income tax (see below)	(43 022)	43 550	—	528
Profit/(loss) from discontinued operation	182 840	73 653	(318 469)	(61 976)
Exchange differences on translation of discontinued operations	34 558	—	—	34 558
Reclassification of foreign currency translation reserve	(48 508)	(5 027)	—	(53 535)
Other comprehensive income from discontinued operations	(13 950)	(5 027)	—	(18 977)
Total comprehensive income/(loss) from discontinued operations	168 890	68 626	(318 469)	(80 953)
Profit/(loss) for the period attributable to:	182 840	73 653	(318 469)	(61 976)
Equity holders of the parent	142 511	73 653	(318 469)	(102 305)
Non-controlling interest	40 329	—	—	40 329
Total comprehensive income/(loss) for the period attributable to:	168 890	68 626	(318 469)	(80 953)
Equity holders of the parent	115 468	68 626	(318 469)	(134 375)
Non-controlling interest	53 422	—	—	53 422

	VAS Operations 1 June 2019 – 30 April 2020 R'000	3G Mobile 1 June 2019 – 14 February 2020 R'000	WiConnect 1 June 2019 – 31 May 2020 R'000	Total 2021 R'000
Goodwill impairments of disposal groups and discontinued operation recognised[1]	(26 886)	(26 346)	(45 587)	(98 819)
Derecognition of put option liability on the effective date of VAS Operations disposal[2]	214 559	—	—	214 559
Recognition of derivative liability to the extent that the exercise price does not represent the fair value of the underlying shares[2]	(77 524)	—	—	(77 524)
Other gains/(losses)	110 149	(26 346)	(45 587)	38 216

[1] In line with the requirements of IFRS 5, management performed an assessment to measure the disposal groups classified as held-for-sale at the lower of their carrying amount and fair value less cost to sell with the following conclusions being reached:
- VAS Operations: Fair value less cost to sell was determined based on the selling price as per the VAS Operations sales agreement. The determination of the fair value of the contingent consideration included in the selling price involved significant management judgement. For further information in this regard, refer to the information under "Critical accounting judgements and assumptions". The impairment losses of R26.9 million arising from measuring the VAS Operations at the lower of its carrying value and fair value less costs to sell after taking into account loan claims to which the proceeds would first be applied to have been recorded in the "Profit from discontinued operation" line item within the Group statement of comprehensive income.
- 3G Mobile: Fair value less cost to sell was determined based on the selling price of R544 million as per the 3G Mobile sales agreement. The impairment losses of R26.3 million arising from measuring 3G Mobile at the lower of its carrying value and fair value less costs to sell have been recorded in the "Profit from discontinued operation" line item within the Group statement of comprehensive income.
- WiConnect: As the operations have ceased in their entirety, all of the goodwill attributable to the entity was impaired with the impairment losses recorded in the "Profit from discontinued operation" line item within the Group statement of comprehensive income.

[2] This relates to the put options for the acquisition of the remaining 40% minority interest in Airvantage and AV Tech. Prior to entering into the VAS Operations disposal transaction, Blue Label accounted for the put options held by both the non-controlling shareholders in Airvantage and AV Technology. This was in line with IAS 32 paragraph 23 that requires an entity with an obligation to purchase its own equity instruments (i.e. Airvantage and AV Tech were consolidated by Blue Label, as their shares were Blue Label's own equity instruments from a consolidated Blue Label perspective) for cash or another financial asset, to recognise such obligation as a financial liability.

Following Blue Label's disposal of the VAS Operations, the terms of the put option over the equity instruments in Airvantage and AV Tech have been substantially modified. In accordance with IFRS 9 this is accounted for as an extinguishment of the original put option liability and a new financial liability is recognised (derivative instrument). The resultant movement in profit or loss in included within the "Profit from discontinued operations" line item within the Group statement of comprehensive income.

Blue Label still has an obligation to acquire the shares should the non-controlling shareholders put the shares to it. As a result thereof, Blue Label recognised a derivative instrument, taking the following into consideration:
- The value of the instrument fluctuates in response to a change in the fair value of Airvantage and AV Tech
- No initial net investment was required
- The put option may have been exercised by the 40% minority shareholders during the 90-day period following signature of the 31 May 2020 audited results. The call option may be exercised by Blue Label for a period of 90 days after the put option expires

The derivative financial instrument is measured at fair value through profit or loss. The amount at which the put and call options may be exercised is contractually determined based on the 31 May 2020 audited results at a six times net profit after tax multiple. Should the exercise price not represent the fair value of the underlying shares, an element of the derivative instrument would have value and as such would be recognised in Blue Label's financial statements. The determination of the extent to which the exercise price does not represent the fair value of the underlying shares involved significant management judgement. For further information in this regard, refer to "Critical accounting judgements and assumptions".

Discontinued operations continued

Cash flow information of discontinued operations

	WiConnect 1 June 2020 – 31 May 2021 R'000	Total 2021 R'000
Net cash inflow from ordinary activities	**4 941**	**4 941**
Net cash inflow from investing activities	**530**	**530**
Net increase in cash generated by the discontinued operations	**5 471**	**5 471**

	VAS Operations 2020 R'000	3G Mobile 2020 R'000	WiConnect 2020 R'000	Total 2020 R'000
Net cash inflow from ordinary activities	172 623	194 913	166 365	533 901
Net cash inflow/(outflow) from investing activities	183 152	(129 525)	(61 519)	(7 892)
Net cash (outflow)/inflow from financing activities	(279 568)	2 336	(105 230)	(382 462)
Net increase in cash generated/(utilised) by the discontinued operations	76 207	67 724	(384)	143 547

Details of the sale of subsidiaries

	VAS Operations 2020 R'000	3G Mobile 2020 R'000	Total 2020 R'000
Consideration received or receivable:			
Cash	350 000	544 000	894 000
Loan claims settled from cash	(44 626)	—	(44 626)
Fair value of contingent consideration*	71 967	—	71 967
Total disposal consideration	377 341	544 000	921 341
Carrying amount of net assets attributable to equity holders of the parent sold	468 871	505 477	974 348
(Loss)/gain on sale before income tax and reclassification of foreign currency translation reserve	(91 530)	38 523	(53 007)
Income tax expense on (loss)/gain	—	—	—
Reclassification of foreign currency translation reserve	48 508	5 027	53 535
(Loss)/gain on sale after income tax	(43 022)	43 550	528

* The determination of the fair value of the contingent consideration of R72 million involved significant management judgement. For further information in this regard refer to the information under "Critical accounting judgements and assumptions".

The carrying amounts of assets and liabilities as at the date of sale (30 April 2020 for VAS Operations and 14 February 2020 for 3G Mobile) were:

	VAS Operations R'000	3G Mobile R'000	Total R'000
Property, plant and equipment	11 076	7 655	18 731
Right-of-use assets	11 892	1 802	13 694
Intangible assets	346 373	80 852	427 225
Goodwill	234 560	25 731	260 291
Investments in and loans to associates and joint ventures	26 101	—	26 101
Loans receivable	15 844	172 494	188 338
Trade and other receivables	207 498	289 390	496 888
Deferred taxation assets	1 342	9 771	11 113
Inventories	78	110 507	110 585
Financial asset at fair value through profit and loss	112	390	502
Current tax assets	694	622	1 316
Cash and cash equivalents	110 361	85 304	195 665
Total assets	965 931	784 518	1 750 449
Deferred taxation liabilities	86 394	22 092	108 486
Lease liabilities	13 602	1 764	15 366
Borrowings	53 815	724	54 539
Trade and other payables	157 030	241 143	398 173
Provisions	—	5 430	5 430
Current tax liabilities	29 565	7 888	37 453
Total liabilities	340 406	279 041	619 447
Net assets attributable to:	625 525	505 477	1 131 002
Equity holders of the parent	468 871	505 477	974 348
Non-controlling interest	156 654	—	156 654

Critical accounting judgements and assumptions

Fair value of the contingent consideration receivable

As explained under "Financial performance and cash flow information", management performed an exercise in terms of IFRS 5 under which the fair value less cost to sell was estimated for the VAS Operations. The fair value of the VAS Operations was determined using the fair value of the selling price. Since the ultimate consideration realised for the VAS Operations will depend partly on whether Cell C's solvency and liquidity is proven and if not, it will depend partly on the value of 24% of the shares in Airvantage and AV Tech, the determination of the fair value of the contingent consideration included in the selling price involved significant management judgement and, accordingly, is a level 3 input per the fair value hierarchy.

Discontinued operations continued

The fair value was determined using a probability weighted basis, which reflects the extent to which management believes that Cell C's solvency and liquidity will be proven, as well as management's estimate of the fair value of 24% of Airvantage and AV Tech:

	Solvency and liquidity of Cell C is proven	Solvency and liquidity of Cell C remains unproven
Cash consideration	R450 million	R350 million
Fair value of 24% of the issued share capital of Airvantage and AV Tech	R0*	R43 million
Total fair value	R450 million	R393 million
Attributed probability percentage	51%**	49%
Weighted average fair value of total consideration receivable	R422 million	
Fair value of the contingent consideration receivable	R72 million	

* Not applicable as the R100 million contingent purchase consideration will be received should the solvency and liquidity of Cell C be proven.
** Refer to "Update on Cell C" for the factors that management considered in determining the 51% probability.

The contingent consideration of the sales price is based on the fair value of the 24% of Airvantage and AV Tech. The fair value of 24% of Airvantage and AV Tech was determined taking into account the adverse impact on Airvantage's operations, should the solvency and liquidity of Cell C remain unproven, since the Airvantage business is largely dependent on Cell C. It has been assumed that Airvantage would not continue to trade and hence no value has been attributed to its 24% share capital. The fair value of 24% of AV Tech's share capital is estimated to be R43 million, which was determined with reference to its contribution to the total profit of the VAS Operations applied to the total selling price as per the VAS Operations sales agreement, i.e. should the purchase price have been split between the relevant entities 24% of AV Tech's share capital would have been attributed R43 million. This remained constant from initial recognition to subsequent measurement at year-end as the purchase consideration has remained unchanged and the operations and results of the underlying entities upon which the valuation is based have remained largely unchanged.

Should management have attributed a 100% probability to the solvency and liquidity of Cell C being proven, the contingent consideration's fair value would be R100 million. Conversely, should management have attributed a 0% probability to the solvency and liquidity of Cell C being proven, the contingent consideration's fair value would be R43 million.

WiConnect discontinued operation considerations

Paragraph 13 of IFRS 5 states that, if a disposal group meets the discontinued operation criteria, the cash flows and results of the disposal group should be presented as discontinued operations at the date on which it ceases to be used. In considering whether the operations of WiConnect have "ceased to be used", management considered that as at year-end, and for some time prior, WiConnect's retail stores had ceased trading (even during the periods of the national lockdown where trading was permissible). Furthermore, all inventory had been transferred to a central warehouse, cash collected and swept from stores and affected staff informed of their retrenchment. Additionally, all landlords to the WiConnect retail stores were also informed prior to year-end of the intention to cease all operations. Therefore, while there are still run-off costs to be incurred (which have been provided for in terms of restructuring provisions) and assets to be sold and scrapped, these are elements of the closing down of the WiConnect operations. Based on this, together with the fact that inventory has been written down to its net realisable value and sold to one buyer, it is management's contention that the operations are not ongoing and that the inflows and outflows which are still to occur do not comprise an activity. Based on these facts and circumstances, management applied its judgement and has concluded that the operations of WiConnect have "ceased to be used".

Management applied further significant judgement in determining whether the operations of WiConnect met the discontinued operations criteria as at year-end. More specifically, management needed to consider whether WiConnect may be classified as a separate major line of business. Under IFRS 8, reportable segments could comprise more than one business segment. Therefore, the fact that WiConnect does not form its own reportable segment (it is included in the Africa Distribution segment) does not preclude it from being considered a major line of business. Executive management and chief operating decision-makers consider WiConnect to be a separate major line of business as a result of several considerations, namely that it was brick-and-mortar retail (or physical stores owned and operated by the Group) directly interacting with clients in the retail space through our own channels/stores selling hardware and other VAS directly to consumers. This, coupled with the loss after tax of R318 million (which is considered to be material in the context of the overall Group results for the year ended 31 May 2020), led to management applying its judgement in concluding that WiConnect is a separate major line of business and consequently meets the definition of a discontinued operation.

Derivative liability fair value

As explained under "Financial performance and cash flow information", significant management judgement was applied in determining the extent that the exercise price does not represent the fair value of the underlying shares. The amount at which the put and call options may be exercised is contractually determined based on the 31 May 2020 audited results at a six times net profit after tax multiple. This formula has been used in determining the total value of the put option liability. As the VAS Operations disposal group (which included Airvantage and AV Tech) was sold at a similar net profit after tax multiple, the multiple is deemed to be representative of a fair market multiple to be used in calculating the value of the shares. However, management has taken into account the adverse impact on Airvantage's operations should the solvency and liquidity of Cell C remain unproven, since the Airvantage business is largely dependent on Cell C. Therefore the derivative has been measured at the difference between the fair value of Airvantage and the exercise price of the put option. Accordingly, these inputs are level 3 inputs per the fair value hierarchy. The same facts and circumstances were taken into account in this critical accounting judgement as were taken into account in the "Fair value of the contingent consideration receivable" assessment above, with management concluding the following:

Total value of Airvantage put option liability on 30 April 2020 (A)	158 213
Attributed probability percentage of the solvency and liquidity of Cell C remaining unproven (B)	49%
Extent that the exercise price does not represent the fair value of the underlying shares (A x B)	77 524

Should management have attributed a 100% probability to the solvency and liquidity of Cell C being proven, the entire put option would have been considered to be at value and, as such, no liability would have been recognised. Conversely, should management have attributed a 0% probability to the solvency and liquidity of Cell C being proven, the entirety of the portion of the put option related to Airvantage would have been considered to not be at value and, as such, a liability of R158 million would have been recognised. The put option over the shares of AV Technology is considered to be at fair value as the operations and results of the entity upon which the valuation is based have remained largely unchanged and six times net profit multiple is consistent with the earnings multiple at which the shares in the entity have been disposed of.

Basis of preparation

The summarised Group financial statements are prepared in accordance with the requirements of the JSE Listings Requirements for provisional reports, and the requirements of the Companies Act applicable to the summarised Group financial statements. The JSE 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 2020.

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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(*Independent non-executive) (**Non-executive)

Company Secretary
J van Eden

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