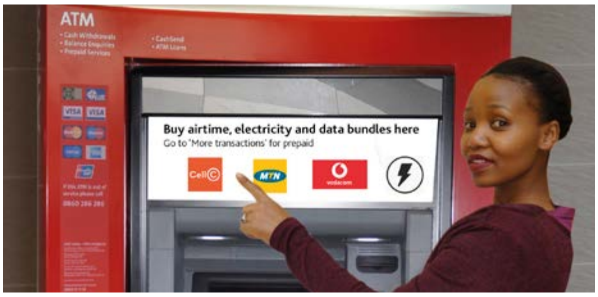
BLUE LABEL
TELECOMS

All roads lead to BLU

INTEGRATED ANNUAL REPORT 2018

All roads lead to BLU

Contents



Approach and reporting frameworks

Approach

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

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

This integrated annual report is the Group's primary report. It covers its business segments and its financial and operational performance for the financial year ended 31 May 2018. Non-financial and sustainability information is limited to the South African operations, as our international operations are not required to report on these matters.

The report contains issues material to our strategy and of interest to our stakeholders. Blue Label has mapped its stakeholders, in particular its relationship with its employees, providers of capital, the media, customers, business partners and suppliers, communities, educational institutions and government bodies. These stakeholder groupings receive more structured engagement processes than other groupings and the level of inclusivity with these stakeholders is correspondingly more integrated into the Group's strategic thinking (refer to the stakeholder relations section on pages 12 to 15).

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

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

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

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

Reporting frameworks

This report has been compiled in line with the requirements of King IV™* report on corporate governance for South Africa 2016 (King IV) and the principles of the International Integrated Reporting Framework.

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

Board responsibility and approval statement

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

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

LM Nestadt
Chairman

28 September 2018

Company overview

We are specialists in prepaid products and the electronic distribution of virtual merchandise. We combine technical innovation with entrepreneurial flair to bring products and services associated with the developed world directly to the doorsteps of people who may be geographically and economically isolated from the mainstream. By so doing, we create jobs, support the growth of small businesses, and assist in bridging the digital divide.

Listed on the JSE, we are a ground-breaking mobile technology company that derives our strength from our extensive distribution network and our commitment to long-term partnerships.

Our proprietary platforms to enable mobile networks, utilities, banks, retailers, petroleum companies and Point of Sale (POS) devices to access the advantages of a digital economy. We are driving financial inclusion of the mass market.

Our trusted Blu-approved logo is the sign of our market leadership, and of our values-driven and customer-first approach.

Please visit **www.bluelabeltelecoms.co.za** for a full list of our products and services.

OUR VISION

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

OUR MISSION

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

OUR VALUE SYSTEM

Customer service orientation

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

Achievement and drive to succeed

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

Honesty and integrity

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

Enjoyment

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

Collaboration

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

Highlights

Revenue increased 1% to **R26.8** billion

Including PINless, revenue grew **9%**

Gross profit increased 7% to **R2.28** billion

HEPS increased 1% to **115.42c**

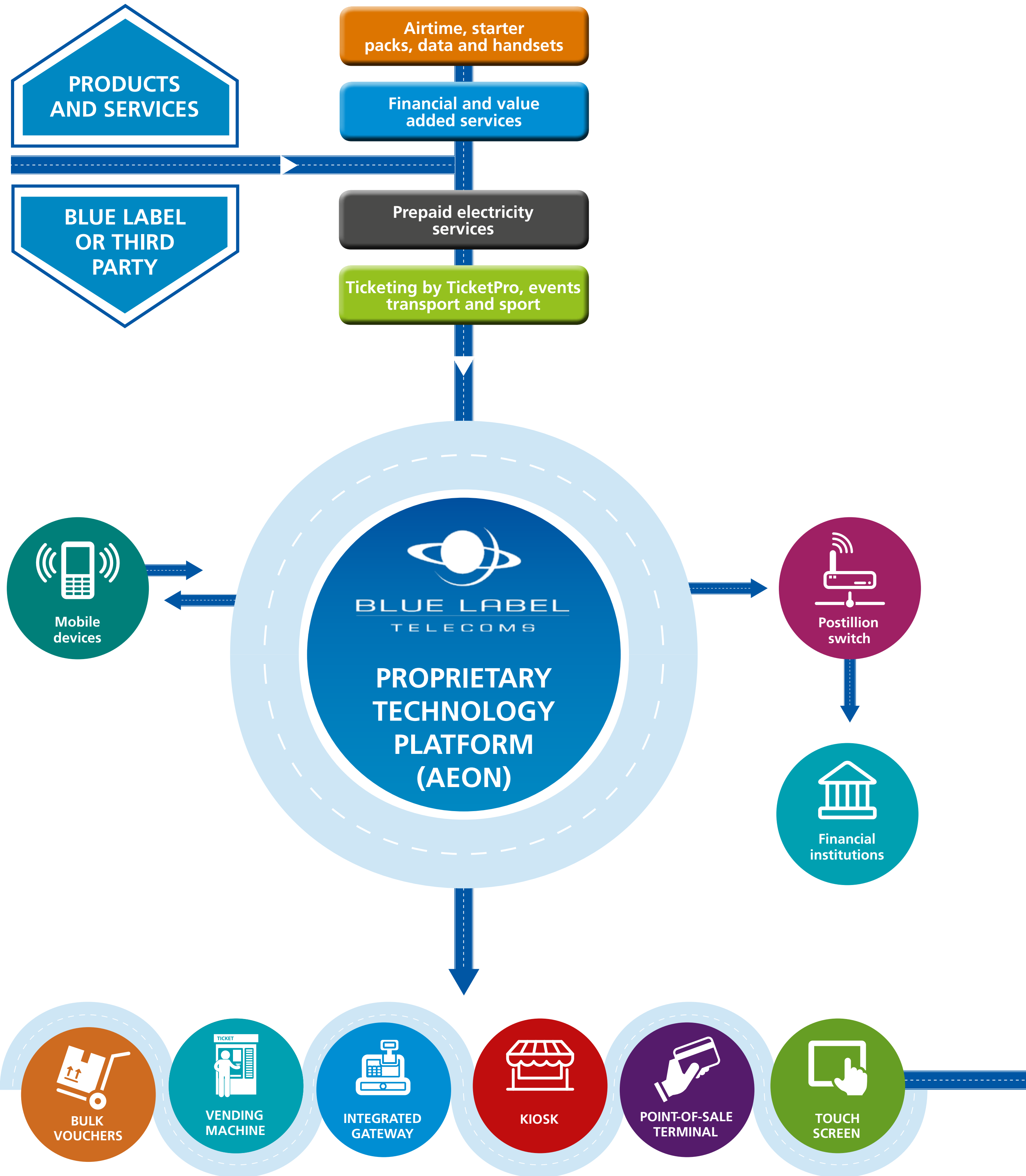
EBITDA increased 4% to **R1.34** billion

Core HEPS increased 4% to **120.61c**

Acquisition of 45% of **Cell C,** 60% of **Airvantage** and 100% of **3G Mobile** concluded

How we create value

Our products and services include:



Blue Label Telecoms is:

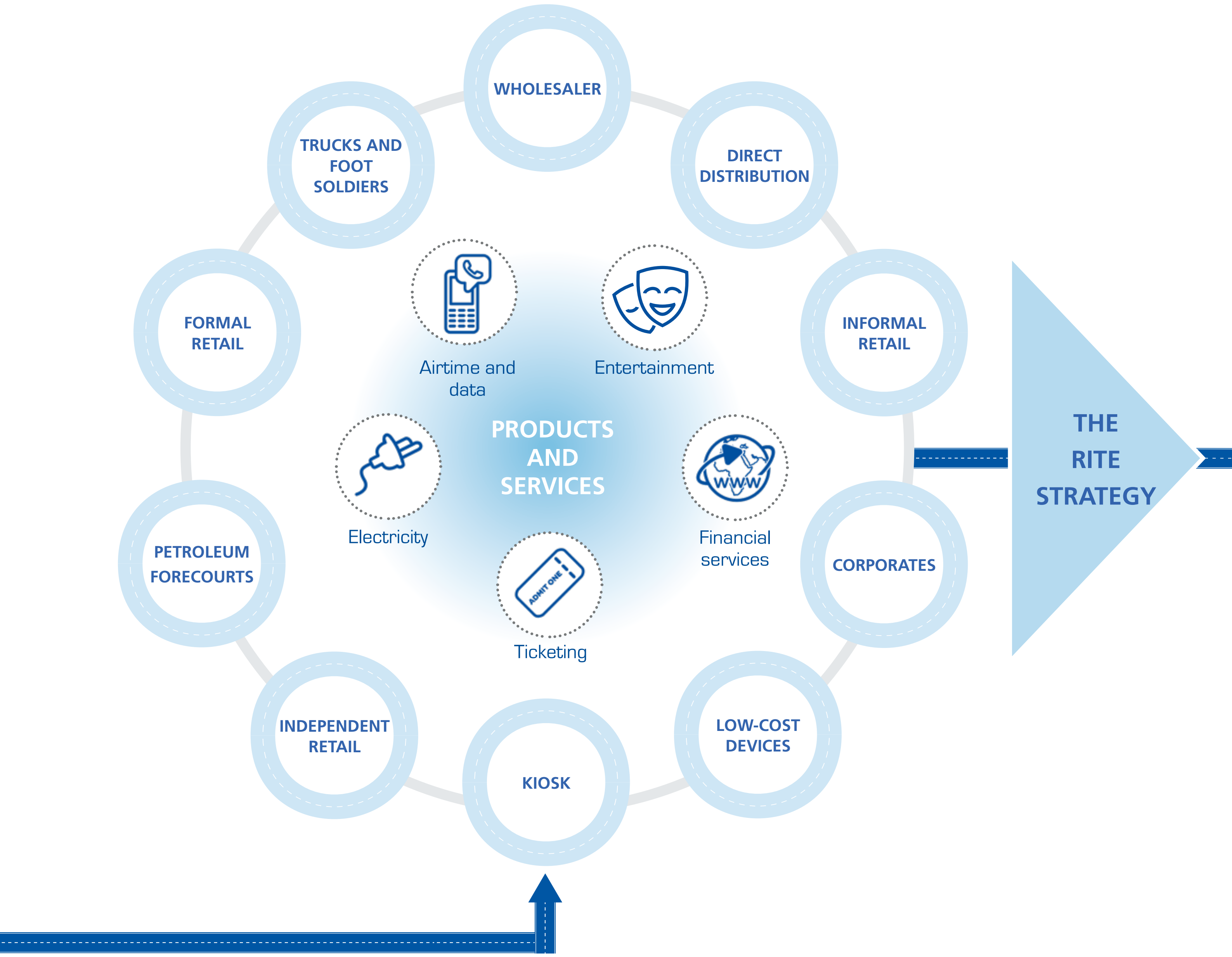
a distributor of products and services in an open loop:

- the owner of scalable and transferable proprietary technology;
- hardware agnostic; and
- product and services agnostic;
- a payment facilitator.

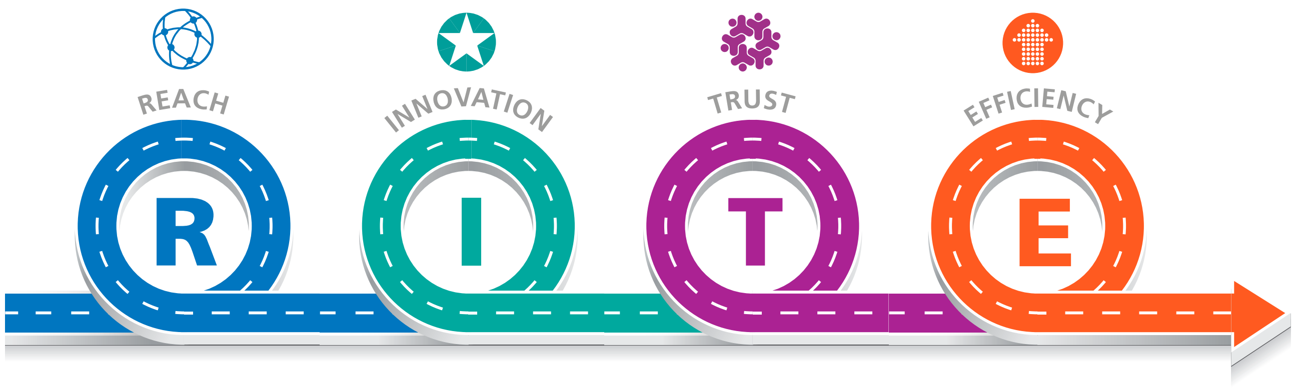
Blue Label Telecoms further is:

a virtual mall:

- our products and services require no inventory management for the merchants thereby eliminating obsolescence
- our devices accommodate all methods of payment by the consumer.



Our strategy and the Six Capitals



Our RITE strategy defines the key focus areas for the business. The strategy's thrusts are Reach, Innovation, Trust and Efficiency; all of which we are building on to deliver sustainable returns to all our stakeholders. The key focus areas are being bedded down throughout our organisation and are expected to support revenue growth, EBITDA growth and cash flow generation. In allocating our capital among the various value drivers, we need to consider the trade-offs between the six capitals which describe the resources available to us. Decisions are made through seeking to maximise positive outcomes and mitigate negative impacts.

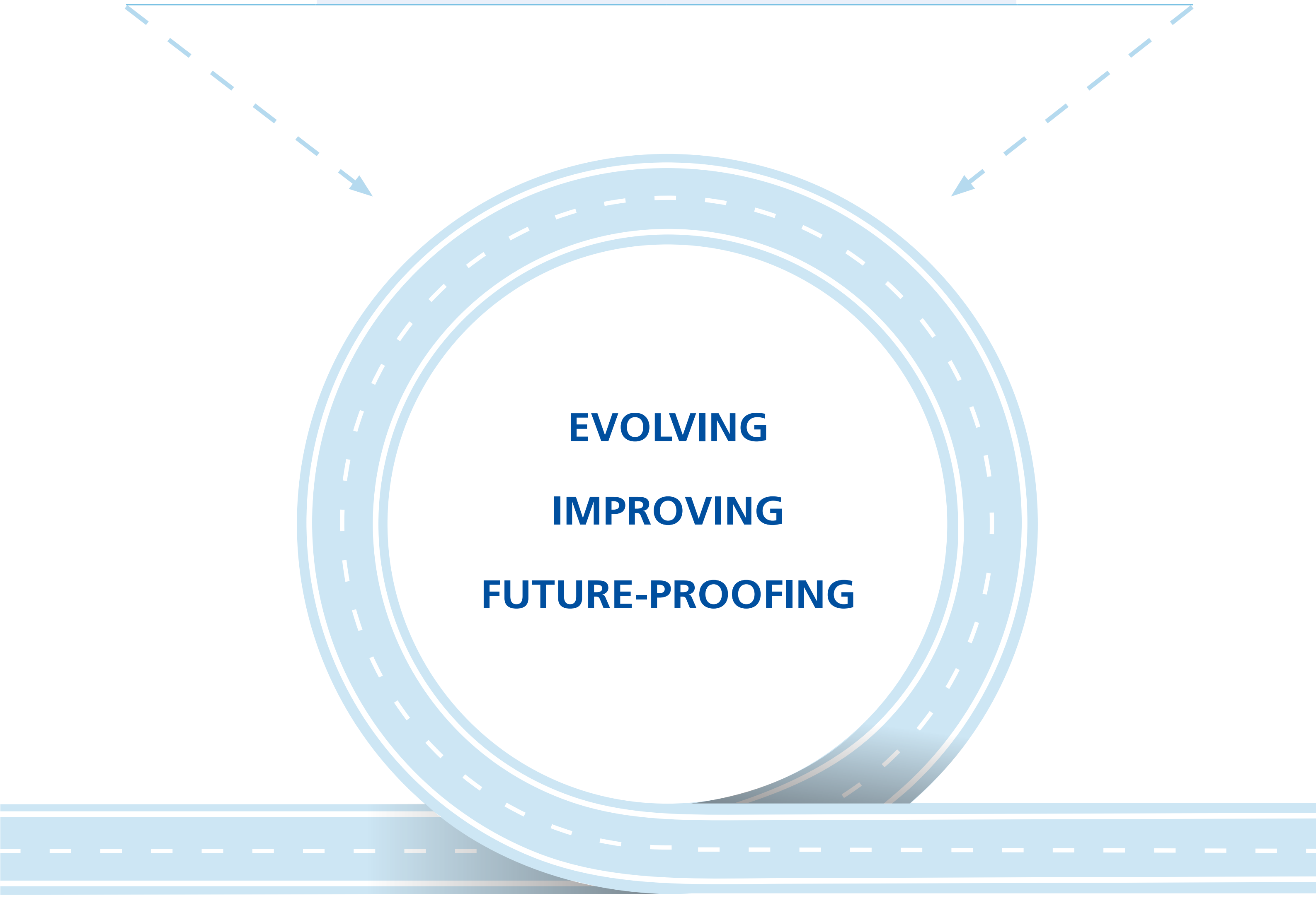
	REACH	INNOVATION	TRUST	EFFICIENCY	OUTCOMES
FINANCIAL The pool of capital available to Blue Label, including debt, equity and cash generated from operations and investments.	▶ Expansion of hub and spoke strategy in core Blue Label business financed through cash generated from operations. ▶ Greater geographic reach and new product acquisition through Airvantage – Africa and Brazil, 3G Mobile and acquisition of Cell C – direct access to mobile network.	R62 million capex devoted to investing in technology and point of sale devices.	The ability to reconcile over one billion physical cash and virtual payments a month builds trust with suppliers, merchants and customers.	Blue Label's commissions earned are low, hence our reliance on volume to drive earnings growth. FY18's acquisitions and share issues have muted growth this financial year due to interest forfeiture and lower bulk settlement discounts but position us well for growth into the future.	▶ Gross profit increased 7% to R2.28 billion. ▶ EBITDA increased 4% to R1.34 billion. ▶ Core HEPS increased 4% to 120.61 cents. ▶ R7.6 billion on acquisitions of which R3.9 billion was raised through equity placements.

	REACH	INNOVATION	TRUST	EFFICIENCY	OUTCOMES
HUMAN The knowledge, skills and experience of the company's employees and managers, as well as the capacity to add to this reservoir of knowledge, through training.	Blue Label has invested in a highly skilled distribution team to double our points of presence within three years. New skills from acquisitions enhance our technology and product mixes.	Our ethos is entrepreneurial. We create jobs and empower merchants throughout South Africa to service their communities by bringing first world products to those who have had no access previously.	Blue Label provides credit to those people unable to secure traditional forms of credit. We build businesses that services the mass market.	Technology creates the ability to provide new products and services to the formal and informal markets. Our people are at the forefront of driving innovative uptake.	▶ Employees increased 13% to 896. ▶ Non-white employees increased 12% to 522. ▶ Female employees increased 15% to 373. ▶ R11 million was spent on training in FY18.
SOCIAL AND RELATIONSHIP The strength/efficacy of supply chain relationships, community acceptance, government relations, relationships with competitors and customer loyalty.	Blue Label's business was built through our ability to service the mobile network operators through digitisation of the airtime product. Our relationships remain vital. As we grow, they grow. Our ability to extend the reach of electricity sales for municipalities further entrenches our relationships.	Innovation through improved technology, systems and operational processes builds our relationships and the level of trust. FY18 saw an enhanced level of data management and streamlining of business processes.	We are an ecosystem that is reliant on suppliers, technology, devices, merchants and customers working together for mutual benefit. The Blu Approved brand embodies trust and reliability.	Blue Label strives, through presentations, meeting and conference calls to clear up any uncertainty with regard to our strategy and financial structuring.	▶ Improved employee engagement. ▶ Excellent relationships with suppliers, merchants and customers. The better we do, the better they do. ▶ R9.3 million was spent on CSI programmes.

Our strategy and the Six Capitals continued

	REACH	INNOVATION	TRUST	EFFICIENCY	OUTCOMES
MANUFACTURING Material goods and infrastructure owned, leased or controlled by Blue Label that contributes to products or services sold.	Our proprietary Aeon switch and leased Postilion switch are capable of seamlessly handling increased volumes as a result of growing reach. We continuously drive the organic and acquisitive extension of our points of presence through our technology platform and point of sale devices.	We continue to invest in upgrading our Android platforms making it easier for customers to do more with our technology. Our acquisitions add technology platforms that have growth in their own right and will deliver further growth to the Blue Label core. The innovative approach adopted by Cell C through focusing on wholesale, FTTH and content will drive continued market share gains.	Our platform, systems and devices work. We have virtually no downtime and provide exceptional service to suppliers, merchants and customers.	The financial performance of the business relies on the technology and product mix that allows us to differentiate ourselves from competitors and continue to grow market share.	▶ Point of sale devices continue to increase throughout our territories. ▶ Cell C concluded a capacity sharing arrangement with MTN which provides seamless handover, 80% 4G coverage and 20% capacity on MTN's network out of the exclusion zones.
INTELLECTUAL Refers to the know-how and intellect behind how we craft our strategy, manage our reporting and data collection to drive growth for Blue Label.	Developed the hub and spoke strategy to increase reach in mass markets. Spent four years conducting due diligence prior to acquisition of Cell C. Improved operational processes, data management and reporting structures to improve service delivery and speed to market.	Developing targeted analytical processes to use the data we receive to design better products and services. Developing machine learning and artificial intelligence.	The quality of our technology and constant innovation allow our entire ecosystem to evolve alongside us.	Blue Label has developed a business that is resilient to economic downswings, has delivered growth in excess of the broader telco sector and, now, through our acquisitions, has future-proofed the business for continuing growth.	▶ New products such as entertainment, gaming, bill payment and ticketing are showing robust growth. ▶ Cell C has delivered 11% growth in service revenue.

	REACH INNOVATION TRUST EFFICIENCY	
NATURAL Any stock of natural resources or environmental assets (such as soil, water, atmosphere, ecosystems) which provide a flow of useful goods and/or services, now and in the future.	As a technology company, Blue Label has a limited impact on the environment. We do, however, acknowledge that no matter how small our impact relative to energy or mining companies, we do have an impact and it is our duty to reduce that impact. The Group will start monitoring our use of fuel, electricity and water in an effort to target reductions in these crucial natural resources. The company needs to understand its carbon footprint and reduce it.	▶ Developing targets for annual reduction in the use of natural resources.



Material risks and opportunities

The Group has identified the material risks that may have an impact on its operations. Each risk is detailed below including its relevant strategic focus area, and mitigation methodology.

Increased threat of cybercrime

As a majority of the Group's inventory is of a virtual nature, defence against cybercrime is a top priority.

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

Independent third parties conduct vulnerability scans and penetration tests are performed to ensure that the systems are as secure as possible and that new threats are appropriately addressed.

Unsuccessful execution and delivery of Cell C and 3G Mobile strategy

The investment of R5.5 billion in Cell C and R1.9 billion in the 3G Mobile is more than the market capitalisation of Blue Label Telecoms.

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

In order to contribute to the success of Cell C, Blue Label has representation on the board of directors, which will afford it complete oversight of the performance of the Company and ensuring that the agreed strategy is implemented at Cell C. The above contributions, combined with the major reduction in interest-bearing debt and foreign exchange exposure thereto, are all positive indicators for sustainable success and longevity.

Group-wide reconciliation and settlement process

The business processes large transaction volumes among multiple vendors and across various systems.

In order to prevent loss of revenue and minimise any customer dissatisfaction, we need to ensure that our reconciliation and settlement process is efficiently run.

All main reconciliations have been automated across the Group (Blue Label Distribution, The Prepaid Company, Cigicell and TicketPro) with the finance department daily resolving any partially matched and unmatched files.

We continue to extend this capability across the Group.

Inadequate disaster recovery

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

The Group's business continuity, business recovery plans and IT disaster recovery plans provide guidance for emergency and crisis management, business recovery and disaster recovery including the restoration of IT facilities.

The major goals of the recovery plans are to:

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

Failure to implement business continuity

Business continuity plans (BCPs) are essential to ensure that the business is prepared for severe interruptions and that business processes can continue during a time of emergency or disaster. Business continuity plans need to be comprehensive, well-documented, readily available and tested periodically to ensure it is relevant and up-to-date.

A lack of understanding and proper implementation of business continuity plans can bring critical business processes to a halt and severely affect the business' reputation among our key stakeholders.

A business continuity management (BCM) programme is being standardised across the Group with a BCM steering committee set up to ensure appropriate governance of business continuity, and simulation exercises are being carried out to validate the plans and to ensure that all staff are aware of what actions to take in the event of a disaster.

Changing BEE environment

Blue Label Telecoms falls into the Information and Communication Technology (ICT) Charter with respect to achieving BEE sector codes. Many of the BEE elements for the ICT sector have a higher target than the generic codes. In particular:

- Black ownership = 30%.
- Enterprise Development = 3% of the annual net profit after tax.
- Socio-economic development = 1.5% of the annual net profit after tax.

The challenge is in trying to achieve the necessary BEE benchmarks for all subsidiaries within the Group.

Further, we are exposed to unforeseen changes in legislation and changes in our core customers' procurement needs.

As a listed company, a recent JSE requirement is to produce a consolidated scorecard for the Group.

We have since appointed a dedicated resource to head up Group transformation and take ownership of Group BEE.

Potential theft of e-tokens of value

Our business has been strengthened by the high-volume, low-margin distribution and sale of e-tokens of value. Electronic tokens are a form of electronic cash used for secure transactions.

The potential theft of e-tokens of value and the increased threat of cybercrime need to be closely managed to ensure that virtual stock is not susceptible to theft or corruption of voucher pins.

Confidentiality, integrity and availability of the virtual stock is managed through role-based access control, secure transfer of supplier/customer files and encryption with Hardware Security Modules (HSMs).

Replacement of scan-a-code

The business has been making use of a bespoke system, scan-a-code, for the support of starter pack distribution business.

There is a risk to the business due to a key man dependency, legacy architecture and code. This could result in loss of revenue and disruption to business. Developers and IT operators have been trained to support and maintain scan-a-code.

We will soon be transitioning onto a new system, KMS. This will require training of merchants and staff. Following the pilot in September 2018, we expect to be live in October 2018.

Supplier relationships (Network operators and utilities) including Cell C

Each subsidiary is highly dependent on their respective suppliers to achieve their business objectives.

There is a risk of customers (aggregators) with significant footprint in market dealing directly with the utilities. This can result in a loss of revenue as our customers become competitors.

In addition, there is a potential for network operators to launch applications whereby consumers are granted direct access to airtime purchases.

Once contracts are successful, there is no room for negotiations. This can result in loss of revenue to the business.

The aim is for top management to maintain a good track record with existing suppliers and strengthen relationships.

Where applicable, businesses are entering into long-term contracts with suppliers in order to secure business for longer periods.

Retention of technical skills

The Group's performance depends largely on the efforts and abilities of its key personnel and employees. The existing Group Executive Management pioneered the mass prepaid market and established the Group's business model. The Group's future success will depend, in part, upon its ability to continue to attract, retain, motivate and reward personnel.

There is a dearth of suitable technical skills in the ITC sector.

The joint CEOs and co-founders are both substantial shareholders and are dedicated to the sustainability and growth of the Group. Key members of the management team are bound by service and restraint agreements and in most instances they are shareholders of Blue Label via the forfeitable share scheme. Executive Management has implemented talent management and succession planning in key areas of the Group. Appropriate skills transfer activities are ongoing through on the job and other training programmes.

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

REACH

INNOVATION

TRUST

EFFICIENCY

Stakeholder relations

Background

Blue Label Telecoms is part of a greater socio-economic ecosystem and our stakeholders are a core element of that system and of our business. As a business embedded in emerging markets and embracing a growing ecosystem, the impact of our operations extends beyond our commercial partners, customers and employees. Providers of capital, communities, the media, government and non-governmental organisations, as well as other stakeholder groupings may each have differing viewpoints and expectations of our business. We recognise that we depend on robust relationships with all our stakeholders in order to grow our business and provide value to individuals, families, businesses and society.

Blue Label's Stakeholder Engagement Policy, a requirement of King IV, outlines our approach to communicating and working with our stakeholders. Engagement is an integral part of developing an understanding of our stakeholders' needs, interests and expectations and assists Blue Label with strategic, sustainable decision making. Collaboration and regular interaction with all stakeholder groups is essential to the business's long-term resilience and to the effectiveness of our integrated sustainability approach. Stakeholder engagement is undertaken with a far broader aim than merely communicating 'to' various stakeholder groups. Rather, Blue Label considers its various stakeholders as key partners in its endeavours.

While the Blue Label Board has ultimate responsibility for our Group's stakeholder engagement efforts, the process of engaging with stakeholders is decentralised to form part of the operations of our various subsidiaries in differing geographic locations. Each business area is required to report regularly to Executive Management and the Board on its stakeholder engagements. This is to ensure the Group's various business units maintain and commit to playing a role in nurturing impactful relationships that deliver mutual benefits.

Stakeholder identification

At Blue Label we identify our stakeholders and monitor our relationships through a multitude of communication channels including regular dialogue.

Key stakeholders are identified by recognising their interests, areas of expertise and levels of influence. Other factors may also be taken into consideration, such as stakeholders' integrity, willingness to engage, stated expectations from engagement, dependence on the Group, and the value to be derived for the Group in engaging with stakeholders.

Identification also assists in allocating resources appropriately and efficiently. As stakeholders can change, stakeholder mapping may need to be conducted to ensure groupings are not omitted or do not overlap.

Stakeholders are prioritised according to the level of influence they have on Blue Label and the level of influence Blue Label has on them. Our primary key stakeholders are our employees, customers, shareholders, regulators, government, media, business partners and suppliers. These groups are discussed in detail in the policy matrix table included at the end of this report.

Methods of engagement

Our methods of engagement include various channels and means of communications reliant on each specific stakeholder group. These methods are meticulously outlined in the stakeholder matrix.

Some of the initiatives and methods used in the process of engaging with stakeholders comprise: face-to-face formal or informal, individual or group meetings (including the AGM), media and securities exchange news announcements, presentations, speeches, roadshows, telephone and conference calls, the Blue Label website **www.bluelabeltelecoms.co.za**, trade visits, phone hotlines, e-mail feedback forms, focus groups, and workshops.

We rely on the results of perception studies, independent research, reputation audits, whistleblowing facilities and formal grievance mechanisms as well as financial and sustainability reports. In addition, we initiate publications such as newsletters, circulars and e-mail updates, regular customer, business partner and supplier meetings, below- and above-the-line advertising, marketing and social media campaigns, formal consultations and audit processes, and host management and sales conferences. Dialogue, review and feedback are encouraged wherever possible, which in turn are presented to Exco for consideration.

Accountability

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

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

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

Exco assesses the completeness thereof, with reference to the ecosystem in which the business as a whole operates. This approach to stakeholder identification and engagement is cascaded to all subsidiaries across the regions, although each is responsible for managing its own stakeholder relationships. Any key concerns at subsidiary level are escalated, either to line management or via the Internal Risk and Compliance Committee.

All subsidiaries or departments dealing with both external and internal stakeholders are directly responsible for receiving and dealing with complaints received. It's their duty to adequately resolve the complaints received to the satisfaction of both parties. Most complaints are directed to the client's direct point of contact with Blue Label including the multiple call centres.

Stakeholder identification and prioritisation is an ongoing process and is evolving as the Group expands.

The Board's approach to stakeholders also embraces:

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

The management of stakeholder risks and opportunities is done through the completion of a risk assessment which forms part of the overall Enterprise Risk Management Process. This enables management to effectively deal with uncertainty, associated risks and opportunities, thereby allowing us to strengthen our stakeholder engagement.

Stakeholder engagement matrix

REASONS FOR ENGAGEMENT	WHY ENGAGE WITH BLUE LABEL	FREQUENCY OF ENGAGEMENT	METHODS OF ENGAGEMENT
EMPLOYEES			
To provide employees with strategic direction and keep them informed about Group activities. To ensure that we remain an employer of choice that provides a safe, positive and inspiring working environment. To understand and respond to the needs and concerns of our employees.	To provide us with feedback and input that can help us improve their working environment experience as well as the performance of our business.	Ongoing and daily engagement at all levels. As required by employees.	Regular, direct communication between managers, teams and individuals. There's also a robust combination of face-to-face, written, digital and broadcast communications, culture and engagement surveys, Blue Label results presentations, leadership seminars, EE summits and CEO roadshows. We also use e-mails, intranet communications as well as employee functions and community events.
CUSTOMERS			
To understand them, their aspirations, businesses and communications needs better. To provide appropriate products and value-adding services. To ensure that we maintain the high service levels they expect and deserve. To inform product development and prioritisation. To develop products that service our clients' evolving technology needs.	To access world-class innovative solutions and services. To obtain access to mobile transactional services that are secure, simple, convenient and efficient.	Ongoing. Dependent on client needs and identified sales, service or guidance opportunities.	A dedicated, national helpdesk operating daily from 07:00 to 21:00, with a team of customer relationship and technical support consultants. Face-to-face formal and informal meetings, as well as formal consultation. The Group has a CRM system, self-help facilities and dedicated sales and technical consultants to enhance its customer engagement service. Customer satisfaction surveys are carried out across all customer segments on a regular basis.

Stakeholder relations continued

REASONS FOR ENGAGEMENT	WHY ENGAGE WITH BLUE LABEL	FREQUENCY OF ENGAGEMENT	METHODS OF ENGAGEMENT
SHAREHOLDERS			
To provide current and future shareholders with relevant and timeous information, ensuring Blue Label shares are appropriately valued. To manage shareholder expectations and reputational risk. To maintain strong relationships, keep abreast of market developments and inform our shareholder targeting strategy. To ensure good governance and deepen the trust placed in us and our brand. To get feedback that informs our strategy, business operations and how we govern.	To receive relevant timeous information on our prospects and financial and non-financial performance so that they can value and assign appropriate ratings. To understand our financial performance. To gain insight into our strategy and management.	On a formal basis, three times a year to coincide with the release of year-end, half-year results and AGM. On an ad hoc basis and as requested by the financial media, investment analysts and investors during open periods. Many times a year through various broker-hosted investor events, non-deal roadshows, conference calls and Blue Label-initiated roadshow and investor days.	Annual and interim results announcements and roadshows together with attendance at any broker-hosted conferences such as the Bank of America Merrill Lynch Annual Sun City Conference. Analysts and investors have access to daily e-mails, telecons and meeting with Blue Labels investor relations together with meeting executive and senior management.
REGULATORS			
To maintain open, honest and transparent relationships and ensure compliance with all legal and regulatory requirements. To retain our various operating licences and minimise our operational risk.	To ensure regulatory compliance. To promote the soundness and stability of Blue Label itself and the legal environments in which we operate.	As required.	Various industry and regulatory forums, meetings between regulators, and our Board and management. This includes one-on-one discussions with various executive officials.
GOVERNMENT			
To cement our social licence to operate with government being one of the key stakeholders. To build and strengthen relationships with government, both as a partner in the development of the country and as a customer. To provide input into legislative development processes that will affect the economy and our activities and operations. To reaffirm our commitment to public sector business development. To participate visibly in, and be a partner to, the transformation of SA and the communications sector. To partner in increasing economic growth and reducing inequality and unemployment.	Blue Label is a key role player in the economic, social and environmental transformation of the country through the provision of virtual communications, payments, value-added and ticketing services to largely lower LSM communities. Blue Label's goal is to improve the levels of financial inclusion in the mass market.	As deemed necessary by either party.	Participation on various platforms with government. Ad hoc engagements with national and provincial departments about economic and business matters that affect Blue Label as a business and ways in which we can be of assistance to individuals and the economy of SA.

REASONS FOR ENGAGEMENT	WHY ENGAGE WITH BLUE LABEL	FREQUENCY OF ENGAGEMENT	METHODS OF ENGAGEMENT
MEDIA			
To leverage the reach and influence of media channels; to share our business and investment story with stakeholders. To communicate with relevant stakeholders and the broader public with a view to having a positive influence on behaviour that will lead to desired business results. To protect and manage our reputation.	To educate and inform their audiences on developments in the communications sector and Blue Label specifically. To be informed about our contribution to the SA economy and our products and services. To empower their audiences to make informed financial decisions. To advise on product and service developments.	Daily interactions in response to business-related media enquiries. Regular interactions to share information and respond to media requests for commentary about our business. Ad hoc engagements in response to our various business and sustainability initiatives. Proactive, scheduled engagements to build vibrant, mutually beneficial media relationships.	Ad hoc meetings with executive and senior management, launches of various Blue Label products and services, interviews with key business media on relevant financial reporting dates. Daily telephone and e-mail interaction regarding media enquiries.
BUSINESS PARTNERS AND SUPPLIERS			
To obtain products or services required for conducting our business. To maintain an ideal and timeous supply of goods and services for our operations. To encourage responsible practices across our supply chain, B-BBEE, local procurement, supplier conduct and environmental considerations. To include critical suppliers in cross-functional teams so as to contribute expertise and advice before specifications are developed for products or services.	To provide products and services. To negotiate pricing and contracts. To promote new products and service offerings. To respond to tenders. To seek input and guidance on their sustainability journeys.	Ongoing, as required	Ongoing interaction with business partners and suppliers for procurement purposes. Supplier education workshops, indabas and fairs. One-on-one negotiations and meetings. Changes to the B-BBEE Codes of Good Practice. Changes to trading arrangements in terms of our procurement systems, ERP.

Board of Directors

LAURENCE (LARRY) NESTADT
Independent Non-Executive Chairman

BRETT LEVY
Joint Chief Executive Officer

MARK LEVY
Joint Chief Executive Officer
BCompt (Unisa)

DEAN SUNTUP
Financial Director
BCom (Wits), Hons (Unisa), CA(SA)

GARY HARLOW
Independent Non-Executive Director
BBusSci (Hons) (UCT), FCMA, CGMA, CA(SA)

KEVIN ELLERINE
Non-Executive Director
National Diploma in Company Administration

JERRY VILAKAZI
Independent Non-Executive Director
BA (Unisa), MA (Thames Valley), MA (London),
MBA (California Coast University)

PHUTI MAHANYELE
Independent Non-Executive Director
BA Economics (Rutgers, USA),
MBA (De Montfort, UK),
Executive Education Programme (Harvard, USA)

JOE MTHIMUNYE
Independent Non-Executive Director
BCompt (Hons)/CTA (Unisa), CA(SA)

LAURENCE (LARRY) NESTADT

Independent Non-Executive Chairman
Born: 1950

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

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

He also chairs the Nomination Committee.

BRETT LEVY

Joint Chief Executive Officer
Born: 1975

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

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

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

MARK LEVY

Joint Chief Executive Officer
BCompt (Unisa)
Born: 1971

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

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

DEAN SUNTUP

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

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

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

GARY HARLOW

Independent Non-Executive Director
BBusSci (Hons) (UCT), FCMA, CGMA, CA(SA)
Born: 1957
Gary graduated from the University of Cape Town in 1979, qualifying as a Chartered Accountant (SA) in 1982, an associate of the Chartered Institute of Management Accountants (UK) in 1983 and as a Fellow Chartered Management Accountant (UK) in 1996. His career was forged in merchant and investment banking. In the early 1990s he became an adviser to the African National Congress in developing black economic empowerment strategies and in 1992 was instrumental in the creation of Thebe Investment Corporation, South Africa's first broad-based black-owned company. Gary served as joint chief executive officer of Msele Corporate and Merchant Bank, South Africa's first black-controlled merchant bank.

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

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

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

JERRY VILAKAZI

Independent Non-Executive Director
BA (Unisa), MA (Thames Valley), MA (London), MBA (California Coast University)
Born: 1961
Jerry is executive chairman of Palama, which he co-founded to facilitate investments in strategic private and listed companies. He is a past CEO of Business Unity South Africa, during which period he served as business representative at Nedlac and on various international business councils. Prior to this, he held various executive positions in government and in the private sector including that of managing director of the Black Management Forum where he also served on the board of the BMF investment company. In 2009 Jerry was appointed to the Presidential Broad-based Black Economic Empowerment Advisory Council and was appointed as a Commissioner of the National Planning Commission in 2010. Jerry was chairman of the Mpumalanga Gambling Board from 2006 to 2015 and the State Information Technology Agency (SOC) Proprietary Limited until the end of his term in 2015. He previously held the position of chairman of Netcare Limited and adviser to Citi Bank. He is Non-Executive Director of Sibanye-Stillwater Limited where he also chairs the Social and Ethics Committee.

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

JOE MTHIMUNYE

Independent Non-Executive Director
BCompt (Hons)/CTA (Unisa), CA(SA)
Born: 1965
Joe qualified as a chartered accountant in 1993. In 1996, he co-founded Gobodo Incorporated, an accounting practice with eight other partners which in time became the largest black accounting firm in South Africa. In 1999, he led a management buyout of Gobodo Corporate Finance from the accounting firm and rebranded it aloeCap Proprietary Limited, of which he is currently the executive chairman. He serves on the board of directors of various non-listed companies in which aloeCap is invested. Joe is an independent Non-Executive Director of Dis-Chem Pharmacies Limited and Cell C Limited. He is also chairman of Dis-Chem and Cell C's audit committees.

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

KEVIN ELLERINE

Non-Executive Director
National Diploma in Company Administration
Born: 1968
Kevin joined the family business, Ellerine Holdings, in 1991. After serving in various roles, in 1993 he was appointed as property manager of Ellerine Bros. Proprietary Limited, rising to managing director of the property division in 2000, a position he still holds today. He sits on the boards of the property and private equity companies in which Ellerines is invested. He is also a director of Hyprop Investments Limited and Newpark REIT Limited. Kevin's all-round business skill and acumen contribute to Board and Committee deliberations of the Group.

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

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

PHUTI MAHANYELE

Independent Non-Executive Director
BA Economics (Rutgers, USA),
MBA (De Montfort, UK),
Executive Education Programme (Harvard, USA)
Born: 1971
Phuti is Executive Chairperson of Sigma Capital, an investment holding company. She is the former CEO of Shanduka Group. Previously, she held senior positions at the Development Bank of Southern Africa, and in the North American and South African offices of Fieldstone, an international firm specialising in financing infrastructure assets. Currently, she sits on the board of Comair Limited, Discovery Insure and Stellenbosch University advisory board.

Phuti also participates in the Young Global Leaders initiative of the World Economic Forum. Phuti joined the Board on 1 September 2016. She is a member of the Audit, Risk and Compliance Committee and Investment Committee.

Senior management

Archie Rantao
Director
Executive Development Programme (Unisa)
Certificate in Operations Management (Wits)

Andrew Murray
Chief Information Officer
BSc Eng (Wits)

Janine van Eden
Group Company Secretary
BProc LLB (RAU), Conveyancing

Etienne de Villiers
General Counsel
BA LLB (Natal) Admitted Attorney

Jabu Mogane
Director Sales and Marketing of Community Channels

Garth Mackintosh
Chief Executive Officer – Blue Label Mobile Group
BCom, Honours (Information Systems), MBA (UCT)

Larry Pogir
Executive Chairman – Blue Label Data Solutions
BCom (Unisa)

Rob Fleming
Chief Marketing Officer
BCom (Rhodes)

Nicola White
Group Head of Investor and Media Relations
BA LLB Wits

Perushka Kalipershad
Head of Group Risk and Compliance
BCom Honours (Unisa), CPrac (SA), Management Development Programme (Duke CE), Certified Ethics Officer (USB)

Sharmine Naicker
Managing Director – Retail
Business Leadership Management (GIBS)

Sashir Milne
Group Head of Human Resources
BA Hons (Industrial Psychology), LLB (Rhodes and University of Leicester)

Tanya Grota
Group Finance – Chief Technical Adviser
BCom Hons (Wits), CA(SA)

Wayne McCauley
Chief Operations Officer – Africa Distribution
BCom, MBL (Unisa), Business Leadership Programme Oxford

Chairman's report

The 2018 financial year has been defined by Blue Label's acquisitions of 45% of Cell C, 100% of 3G and 60% of Airvantage. Blue Label spent R7.55 billion on these acquisitions, of which R3.9 billion was funded through the issuing of 272 million new shares.

Larry Nestadt
Chairman

Defining activities

The 2018 financial year has been defined by Blue Label's acquisitions of 45% of Cell C, 100% of 3G and 60% of Airvantage. Blue Label spent R7.55 billion on these acquisitions, of which R3.9 billion was funded through the issuing of 272 million new shares.

In considering the merits of these acquisitions, the Board debated whether or not each company met our acquisition criteria which include: strategic fit, accretive to earnings, defensive positioning, and new products and channels.

The acquisition of Cell C, was both of a defensive nature and created an opportunity for earnings growth. The acquisition was defensive, in that it protects Blue Label from possible disintermediation by the mobile network operators, and earnings enhancing in that we can assist in turning the company around through continuing capital restructure and executing their strategic objectives. Both the 3G and Airvantage acquisitions are earning accretive and add exceptional products and services to the Blue Label stable. Not only will these acquisitions assist in the growth of Cell C, but they will also benefit the core Blue Label distribution business and add first-class skills and technologies to our Group.

Concluding the MTN capacity transaction is also extremely positive for Cell C as this ensures the provision of greater network capacity, seamless handover, 80% 4G coverage and a reduced capex bill for Cell C.

Through our 45% ownership of Cell C, Blue Label now has a national network, a strong procurement arm, products and services that improve the financial inclusion of the mass market, and an expanding distribution network.

Share price performance

The Board and I are naturally concerned about the decline in the share price, which we believe is largely attributable to uncertainty with respect to Cell C's turnaround strategy, current debt levels and requirements for further funding.

These concerns will be largely negated on the proviso that Cell C delivers on its business plan. In this regard, it is our intention to monitor and assist on a diligent basis and to communicate the results thereof on a more detailed basis going forward.

We trust that our improved Cell C disclosure will build greater confidence in support of our strategy to ensure positive cash flow generation and in turn enhance the core business of Blue Label.

Strategic integration imperatives

Governance across all the companies in our stable is a key integration focus, especially at Cell C, given the need to improve its financial performance.

We are ensuring that the six capitals, namely financial, manufacturing, human, social and relationship, intellectual, and natural are well utilised to generate returns for all our stakeholders.

The companies acquired have added valuable new skills and talent to the Group, and we now intend to maximise these both vertically and horizontally to extract value for the business. Bedding down processes, systems and platforms in conjunction with new technologies and skill sets will be the Group's priority in the 2019 financial year.

Value add to the companies acquired

Blue Label has been listed since 2007. We have strong governance systems in place which we are infusing into our acquisitions. Blue Label also has an intrinsically entrepreneurial ethos and a proven track record of recognising attractive opportunities and capitalising on them.

We trust that we will be able to deliver positive turnover growth and cost containment in the forthcoming financial year.

The 2018 financial results

The core business performed solidly. Revenue increased 1% to R26.8 billion. On imputing PINless revenue, in which only the commission earned is included in revenue, total revenue equated to a 9% revenue growth. In addition, despite the issuing of new shares, core headline earnings per share increased 4% to 120.61 cents.

We acknowledge that the accounting for the various acquisitions made during the current year have created an element of complexity in analysis of the impact thereon. The remaining entities within the Group continue to be resilient to fluctuations in economic conditions within the country.

We have written down our Indian operations by R174 million. Our objective remains to dispose of our interest. We are pleased with the improved performance of our asset in Mexico.

We look forward to producing far less complex results during our next reporting period and being able to show the progress made with regard to our distribution expansion strategy and acquisitions.

Macro-economic environment

The South African and global political and economic environments are complex and full of uncertainty. The lack of a clear direction at home and abroad does not promote business confidence and makes operating and planning for the future difficult.

The recent political turmoil surrounding corruption in South Africa has, in my view, set us back many years. I am, however, positive that our government under Cyril Ramaphosa is taking decisive action against corruption and we are on the long road to recovery.

The trade wars between the USA and China have had an impact on emerging markets' currencies as the dollar strengthens. As a result, emerging markets as a whole have fallen out of favour with global investors.

Black economic empowerment

Empowerment and transformation are ongoing areas of focus for the Group. We are constantly working on improving our race and gender profiles from Board level right through the entire company. As a truly proud South African company, Blue Label has embraced empowerment and transformation and is striving to improve our status on an annualised basis.

Transformation is an imperative, a work in progress and can always be improved. What is important is that our trading, or business facing subsidiaries are at the optimum empowerment levels required.

Addressing social challenges

Poverty levels are unacceptably high, and access to products and services are unacceptably low for a vast number of South Africans. I am proud of the fact that Blue Label has always been driven to improve financial inclusion for the mass market. We have designed a strategy that we believe allows us to cost-effectively extend our reach into the informal market. Taking vital products and services closer to the people will aid in reducing cost of living for the poorest of the poor. While it is important for us to extend the reach of the Group, we also see this as a way to generate jobs for many mass market merchants across the length and breadth of South Africa.

I wish to thank the management and staff of Blue Label for their dedication and commitment to the Group during what has been a pressurised and demanding 2018 financial year.

LM Nestadt
Chairman

28 September 2018

Interview with the joint CEOs

> Together with Blue Label's expertise, channels to market and product portfolio, we believe our new acquisitions have added to our exciting formulae for revolutionary growth.

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

Q Did you achieve the targets the Board set for you over the 2018 financial year?

A For some, budgets are targets; for us they are the minimum we would like to achieve, so there's always room for improvement. Integration of our acquisitions of Cell C, 3G Mobile and Airvantage is complex and it will take much time and energy to achieve the desired outcome, which is work-in-progress daily. However, concluding all these major deals within the year has been a major achievement. We have extended our reach and added exciting products to our portfolio. The core Blue Label distribution business had another solid year in very tough economic conditions, in spite of continued pressure on consumers which does not seem to be easing up in the near term. Our business is resilient.

Our focus for the next 12 months will be on bedding down the acquisitions and integrating them into the core business to stimulate organic growth through vertical integration, and to capitalise on synergies between these entities. The purchase of these assets has been invaluable, not only as free-standing entities, but also because of how we can leverage them within our own operating environment. For example, we are extending the funding capabilities of 3G Mobile into new verticals like DSTV decoders and smart meters at municipalities. The sophisticated nano credit scoring of Airvantage is being extended to Brazil and into Africa, and is also now being trialled for advances in other products.

Cell C has delivered a satisfactory performance and has much to offer shareholders in the future. The key issues of managing debt levels, and ensuring sufficient funding is in place to deliver the revenue and EBITDA growth we are targeting is well in hand. We are concentrating on how best to take advantage of the skills, technology and intellectual property of these assets.

Q How do you manage the Blue Label team's achievement of these targets?

A Our remuneration policies, the parameters of which are governed by Remco, are designed to drive performance from the Blue Label Group. We are proud of our ability to extract maximum value, while also developing and enhancing our employees' careers. We are committed to fostering entrepreneurial thinking within the organisation, as demonstrated by our commitment to innovation within a governed implementation framework. We believe that happy employees are more efficient, more productive and remain with the Group.

We also embrace cultural diversity within Blue Label. For example, we provide prayer rooms to offer our diverse staff a discrete space in which they can practise their spirituality. We also strive to create an inclusive and supportive work environment that encourages broad expression from our people, which we believe is greatly appreciated. This is important to us, as our customer base includes an extremely diverse cross-section of the South African population. In order to reach our target market, we require a representative team with the capabilities of developing innovative offerings that appeal to different groups of people across all sectors of our population.

Q What is your vision of the benefits that Cell C, 3G Mobile and Airvantage will contribute to Blue Label?

A Aside from what they offer in their individual capacity – good growth in themselves – they allow us to own more of the ecosystem. The ultimate benefits will be built from merging these investments with the core of Blue Label. True success will lie in how these companies work closely together to produce further growth, thereby future proofing us even more.

With Cell C, we have gained access to a mobile network, as well as innovative concepts relating to wholesale and content; 3G Mobile has provided access to unique financing skills; and Airvantage, processes and systems that allow advances down to a nano level.

Together with Blue Label's expertise, channels to market, and product portfolio, we believe we have an exciting formula for evolutionary growth.

Q How do you manage the risk to the Group of Cell C's performance?

A We are intimately involved in monitoring the execution of Cell C's strategy and its operational and financial performance. We engage almost daily with various Cell C management and are encouraged by the performance delivered to date. We buy into Cell C's strategy. The company is well on its way to becoming a strong, profitable third network operator.

In addition, we have four Blue Label representatives on Cell C's Board.

Q What do you believe needs to happen in the South African telecommunications sector to restart growth?

A In order for retail prices of data to reduce input costs need to decrease. Customers are demanding faster, bigger, better and cheaper. This has become even more complex given the continued need to invest in the network and future technologies.

Consolidated environments will yield better economies of scale and will drive down input costs and in turn, retail prices. Interestingly, value for money encourages greater spend, and therefore growth. Because consumers like bargains, all mobile operators are going to need to investigate how they collaborate, between themselves and the regulator ICASA, to drive input costs down. This is particularly pertinent given the advent of 5G and the density of networks required for this technology.

Q Is Blue Label different now that you have bought Cell C?

A It would be remiss for us not to acknowledge the magnitude of our investment in Cell C. We have been negotiating and conducting our due diligence on Cell C since 2013. The transaction was completed on 2 August 2017. We are confident of how Cell C fits into the broader Blue Label strategy. Furthermore, we believe in Cell C's strategy, which includes its objective of becoming a converged mobile network operator – with the added verticals of content, fibre-to-the-home and wholesale. Already, these focus areas differentiate Cell C from its competitors, ensuring that it's not just seen as another network provider.

We own our aspiration of being the leader in the field of token distribution, and we are constantly evolving touchpoints, aided by a new hub-and-spoke strategy; this will ensure that our reach expands further and wider than it ever has. In addition, we drive financial inclusion of the mass market through relevant product portfolios enabled by our proprietary technology, which is also our key differentiator.

It may be said that David bought Goliath when it comes to Cell C, but that does not change our vision, principles, or ethos. Blue Label is still Blue Label, just a better Blue Label. Every time we add to our stable, we add to our value proposition. Clearly the success of Cell C is vital to our shareholders.

Q How has the introduction of distribution specialists changed operations at Blue Label?

A Nothing speaks louder than experience. You can choose to learn through a process of trial and error, or you can turn to the experts and leverage their knowledge and experience to complement and enhance the practices and processes that have been developed internally. Our integration of distribution specialists has been highly beneficial to Blue Label and has provided us with a team that truly understands what is needed to efficiently distribute our products into the mass market.

Consider that more than 31 million people in South Africa earn less than R6 000 per month. Of these, many are located in rural or semi-rural areas. While they may have bank accounts, they generally transact in cash. This means that access to transactional products and services needs to be offered closer to where they live to reduce transport costs, and these products and services must also be extremely cost-effective to make up for the low margin that is generated. Our hub-and-spoke strategy, specifically developed to enable growth into this sector of the market, is one that creates jobs, drives down transactional costs, and increases financial inclusion. We look forward to reporting on our additional successes in this regard in the 2019 financial year.

Q What are your most important growth areas?

A What is key, is extending our reach into the mass market and delivering additional products and services to our existing loyal customer base. While we do not need to grow our customer base, we do need to cross-sell more to our existing customers. Our other key objective is, of course, to secure profitability from all our acquisitions.

Q Why are you continuing to aim for international growth given the disappointment of India and a very slow start in Mexico?

A We have learned from our experience and our model has changed. With regards to India we are pursuing our exit strategy and as part of this, we are currently looking for investors in order to exit this investment. For our remaining and future international investments, we are not going after the traditional brick-and-mortar investment approach, but rather using our experience to move our smart technology platforms directly into corporates and mobile network operators. We have changed our strategy from a B2C to a B2B2C model, greatly reducing our cost of entering new markets, while also increasing our speed to market. Because we have adapted the way we enter into markets, we are now being viewed as a partner, rather than a supplier, which comes with many advantages.

Q What is your 10-year vision for Blue Label?

A Our objective is to own the majority of the mass market space in our market segment. No matter what the product or service may look or feel like in the future, we will be taking a switch fee for delivering these through our systems. The mass market makes up approximately 80% of the market, and it is only a matter of time before First World products and services are made available to this grouping, in a manner that they are willing to consume and pay for.

The future will revolve around equality of purchasing, which means making First World products available to the mass market consumer in a manner that suits them – anytime, any place, anywhere, using any form of payment mechanism. As Blue Label is product hardware and payment-agnostic, and has the added skill of being able to process and reconcile large volumes of transactions, including cash and nano transactions, this is the future we look forward to.

The combination of our abilities and our strategic vision will result in long-term value and benefits for all our stakeholders.

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

28 September 2018

Financial Director's report

The net asset value per share increased by 35% to R9.88 and earnings per share increased by 2% to 116.12 cents per share.

Dean Suntup
Financial Director

INCREASE IN REVENUE TO
R26.8 billion

INCREASE IN EBITDA OF 4% TO
R1.34 billion

INCREASE IN CORE HEADLINE EARNINGS PER SHARE OF 4% TO
120.61 cents

Financial review

Core headline earnings for the year ended 31 May 2018 amounted to R1.03 billion, resulting in an increase of R236 million (30%). Core headline earnings per share increased from 116.24 to 120.61 cents per share (4%), post a dilution resulting from the issue of an additional 272 million shares to fund an element of acquisitions made during the financial year. Core headline earnings are calculated after adding back the amortisation of intangible assets as a consequence of the purchase price allocations to headline earnings.

On 2 August 2017, Blue Label, through its wholly owned subsidiary, The Prepaid Company (TPC), acquired 45% of Cell C Limited (Cell C) for R5.5 billion and 47.37% of 3G Mobile Proprietary Limited (3G Mobile) for R0.9 billion. On 6 December 2017, TPC acquired the remaining 52.63% of 3G Mobile for R1 billion. On 2 January 2018, Blue Label acquired 60% of Airvantage Proprietary Limited (Airvantage) for R151 million. The total of R7.55 billion was partly funded through the issue of 272 million shares amounting to R3.9 billion.

The core headline earnings comprised the Group's share of profits of R569 million in Cell C which included the recognition of an increase in a deferred tax asset of R1.92 billion, of which the Group's 45% share amounted to R865 million, its profit contributions from 3G Mobile of R157 million and from Airvantage of R2.6 million. These contributions were from the effective dates of each acquisition and not for a full year.

The balance of earnings pertained to the remaining companies within the Group, inclusive of a derivative fair value gain of R3.7 million and once-off costs of imputed IFRS interest adjustments of R65 million attributable to the acquisitions of 3G Mobile and Airvantage. A further R28 million pertained to interest and costs relating to the 3G Mobile acquisition.

Core headline earnings in the current year were negatively impacted by R217 million as a result of the cessation of early settlement discounts and interest forfeiture. This was in lieu of the utilisation of working capital resources to fund the cash element of the acquisitions.

The investments in Oxigen Services India, Oxigen Online Services India (collectively, Oxigen Services India) and 2DFine Holdings Mauritius (2DFine) were accounted for as investments in associates and joint venture, applying the equity method up until 30 November 2016. Thereafter, these entities are accounted for as venture capital investments at fair value. The net effect thereof, resulted in a positive contribution to Group earnings of R35 million in the comparative year.

In the current year, a downward fair value movement of R173 million less deferred taxation of R3 million thereon, which together with a net loan impairment of R87 million resulted in a negative impact of R257 million on Group earnings.

The underlying table demonstrates the impact on core headline earnings growth, on exclusion of the acquisitions of Cell C, 3G Mobile and Airvantage, the derivative fair value gain, non-recurring costs, cessation of early settlement discounts, interest forfeiture, the winding up process of Africa Prepaid Services as well as the impact on the accounting treatment pertaining to Oxigen Services India and 2DFine. Adjusted core headline earnings per share would have equated to a growth of 16% to 132.56 cents per share, had there been no further shares to fund the above acquisitions.

	May 2018 R'000	May 2017 R'000	Growth R'000	Growth %
EPS (cents)	**116.12**	114.13	1.99	2
Core headline earnings	**1 032 016**	795 684	236 332	30
Core HEPS (cents)	**120.61**	116.24	4.36	4
Core headline earnings adjusted for:				
Share of losses, fair value loss and loan impairments from Oxigen	**256 941**	(35 484)		
Share of profits from Cell C	**(569 475)**	–		
Share of profits from 3G Mobile	**(156 722)**	–		
Share of profits from Airvantage	**(2 627)**	–		
Fair value gain on derivatives	**(3 688)**	–		
Present value interest expense relating to 3G Mobile/Airvantage	**64 525**	–		
Transaction interest and costs relating to 3G Mobile acquisition	**28 128**	–		
Cessation of settlement discounts and interest forfeiture	**216 604**	–		
Once-off winding up cost of Africa Prepaid Services Group	**20 737**	–		
Adjusted core headline earnings	**886 439**	760 200	126 239	17
Adjusted core HEPS (cents)	**132.56**	113.91	18.65	16

Group revenue increased by 1% to R26.8 billion. On imputing gross revenue generated on the continued growth in sales of "PINless top-ups", of which only the gross profit earned thereon is accounted for, the effective growth in revenue equated to 9%.

EBITDA increased by 4% from R1.29 billion to R1.34 billion, underpinned by an increase in gross profit margins from 8.04% to 8.52%.

The Group's share of losses in Blue Label Mexico declined from R37 million to R21.9 million (41%).

Cash generated from operating activities amounted to R3.2 billion, partly facilitating the payment of the cash element of the acquisitive transactions.

The net asset value per share increased by 35% to R9.88 and earnings per share increased by 2% to 116.12 cents per share.

Group income statement

	May 2018 R'000	May 2017 R'000	Growth R'000	Growth %
Revenue	**26 800 265**	26 469 581	330 684	1
Gross profit	**2 282 092**	2 129 000	153 092	7
Gross profit margins	**8.52%**	8.04%	0.48%	
Other income	**81 704**	16 814	64 890	386
Overheads	**(1 023 643)**	(858 073)	(165 570)	(19)
EBITDA	**1 340 153**	1 287 741	52 412	4
Depreciation, amortisation and impairment	**(242 604)**	(112 851)	(129 753)	(115)
EBIT	**1 097 549**	1 174 890	(77 341)	(7)
Finance costs	**(306 636)**	(109 788)	(196 848)	(179)
Finance income	**195 298**	84 605	110 693	131
(Loss)/gain on associates and joint ventures measured at fair value	**(173 645)**	160 200	(333 845)	(208)
Share of profit/(loss) from associates and joint ventures	**565 812**	(164 941)	730 753	443
Net profit before taxation	**1 378 378**	1 144 966	233 412	20
Taxation	**(331 069)**	(329 816)	(1 253)	–
Net profit after tax	**1 047 309**	815 150	232 159	28
Non-controlling interest	**(53 685)**	(33 896)	(19 789)	(58)
Net profit attributable to equity holders of parent	**993 624**	781 254	212 370	27
Core intangible adjustment	**44 345**	14 069	30 276	215
Core net profit	**1 037 969**	795 323	242 646	31
Headline earnings adjustment	**(5 953)**	362	(6 315)	(1 744)
Core headline earnings	**1 032 016**	795 685	236 331	30
Earnings per share (cents)	**116.12**	114.13	1.99	2
Headline earnings per share (cents)	**115.42**	114.19	1.24	1
Core headline earnings per share (cents)	**120.61**	116.24	4.36	4

Revenue

Although growth in revenue was confined to R331 million, revenue generated on "PINless top-ups" escalated, congruent with the continued shift in consumer buying patterns from the traditional purchasing of airtime to that of "PINless top-ups". As only the commission earned thereon is accounted for, the effective growth in Group revenue equated to 9%.

Gross profit

The increase in revenue, underpinned by an improvement in gross profit margins from 8.04% to 8.52%, resulted in gross profit increasing by R153 million (7%) to R2.28 billion, net of a forfeiture of early settlement discounts in lieu of the utilisation of working capital resources to fund the cash element of the Cell C acquisition.

The forfeiture of early settlement discounts was partially replaced by marketing rebates which only came into effect from August 2017.

Included in the resultant confined growth of R153 million are gross profit contributions from 3G Mobile of R226 million and Airvantage of R29 million, resulting in an effective decline in gross profit by R102 million.

Overheads

Overheads, comprising employee costs and operating expenses increased by 19% to R1.0 billion, of which the former accounted for 16% and the latter 23%.

The 3G mobile group and Airvantage SA were acquired in the current year, incurring overheads of R47.2 million and R21.8 million respectively, for which there are no comparatives.

EBITDA

The resultant EBITDA increased by R52 million (4%) from R1.29 billion to R1.34 billion at a margin of 5.00%.

Depreciation, amortisation and impairment charges

Depreciation, amortisation and impairment charges increased by R130 million to R243 million. Of this increase, R2 million pertained to depreciation on additional capital expenditure incurred during the year, R91 million to impairments and R37 million relating to the amortisation of intangible assets of which R29 million emanated from purchase price allocations on historical acquisitions, which increased from R18 million to R47 million.

Net finance costs

The Group has reconsidered its accounting policy with respect to financing components included in its sale and purchase transactions in the ordinary course of business. It has concluded that there is no financing component in the above transactions. In accordance with IAS 8, it has therefore restated the comparative financial information for this change in accounting policy.

Finance costs

Finance costs totalled R307 million, of which R167 million related to interest paid on borrowed funds and R140 million to imputed IFRS interest adjustments. Of the latter amount, R75 million was attributable to credit received from suppliers and R65 million to the acquisitions of 3G Mobile and Airvantage. On a comparative basis, interest paid on borrowed funds amounted to R106 million and the imputed IFRS interest adjustment equated to R4 million.

The increase of R61 million was attributable to the part payment for the cash elements of the acquisition of shareholdings in Cell C and 3G Mobile. These payments were facilitated through a change in the working capital structure of the Group. In addition, a further R1 billion was advanced to Cell C on a piecemeal basis for the purpose of it applying such funds towards capital expenditure.

Finance income

Finance income totalled R195 million, of which R192 million was attributable to interest received on cash resources and R3 million to imputed IFRS interest adjustments on credit afforded to customers. In the prior year, interest received on cash resources amounted to R79 million and the imputed IFRS interest adjustment to R5 million.

The increase of R113 million in interest received from cash resources included interest of R84 million from Cell C for the advance of the R1 billion to them for capital expenditure.

The limited growth in finance income was predominately attributable to the utilisation of an element of cash resources for the funding of the Cell C transaction.

Loss on associates and joint ventures measured at fair value

In the comparative year, the investments in Oxigen Services India, Oxigen Online and 2DFine were accounted for as investments in associates and joint ventures, applying the equity method up until 30 November 2016. From that date these entities have been accounted for as venture capital investments at fair value. The fair value gain of R160 million and the Group's share of losses of R125 million, resulted in a positive contribution to Group earnings of R35 million in the comparative year.

The fair value of venture capital investments is required to be assessed at each reporting period. The change in fair value between 31 May 2017 and 31 May 2018 decreased by R174 million.

Share of losses from associates and joint ventures

On 2 August 2017, The Prepaid Company acquired a 45% shareholding in Cell C. For the 10 months ended May 2018, Cell C generated a profit of R1.13 billion, of which trading losses amounted to R797 million, excluding its early adoption of IFRS 15 and 16 standards. Exclusion of the above standards is in line with BLT's election to defer early adoption thereof. These losses were offset by the recognition of an increase of R1.92 billion in a deferred tax asset. Although the Group's share of the above net profit equated to R506 million, Blue Label's accounting policy is to exclude equity-settled share-based payment charges from its share in profits/losses from associates. Consequently, the impact thereon which amounted to R65 million, resulted in BLT's share of profits equating to R571 million at a core net profit level.

From the date of acquisition of 47.37% of 3G Mobile until 30 November 2017, its financial results for the four-month period were equity accounted for as an associate. Its core net profit during that period amounted to R75 million, of which the Group's share equated to R35 million. After the amortisation of intangible assets its contribution as an associate amounted to R31 million.

Edgars Connect incurred losses of R31 million for the year, of which BLT's 40% share equated to R12.4 million. In the prior year it incurred losses of R11.5 million of which BLT's share equated to a loss of R4.6 million. On 7 August 2018, TPC acquired the remaining 60% of Edgars Connect.

Blue Label Mexico's losses declined from R74.4 million to R42.8 million, of which the Group's share amounted to R21.9 million after the amortisation of intangible assets. In the comparative year the Group's share of losses amounted to R36.6 million.

Non-controlling interests

Non-controlling interests comprises minority share of profits in Cigicell, Reware, Transaction Junction, Via Media, Blue Label Data Solutions, Airvantage and Africa Prepaid Services, the total of which equated to R54 million.

Core headline earnings

Core headline earnings increased by R236 million (30%) to R1.0 billion. This equated to core headline earnings per share of 120.61 cents.

Segmental report

Africa Distribution

	May 2018 R'000	May 2017 R'000	Growth R'000	Growth %
Revenue	**26 245 206**	25 944 102	301 104	1
Gross profit	**2 014 169**	1 873 443	140 726	8
EBITDA	**1 344 824**	1 344 714	110	–
Share of profits/(losses) from associates and joint ventures	**583 122**	(5 404)	588 526	101
– Cell C	**562 567**	–	562 567	–
– 3G Mobile	**31 155**	–	31 155	–
– Other	**(10 600)**	(5 404)	(5 196)	(96)
Core net profit	**1 385 494**	887 396	498 098	56
Core headline earnings	**1 384 739**	887 417	497 322	56
Gross profit margin	**7.67%**	7.22%		
EBITDA margin	**5.12%**	5.18%		

The contributions to Group core headline earnings by the Africa Distribution segment totalled R1.38 billion, equating to a growth of R497 million (56%). The financial results for the year ended May 2018 includes the contributions of 3G Mobile, Cell C, Airvantage and the remaining entities within this segment that were in existence in the comparative year.

The table below illustrates the composition of the Africa Distribution division:

	May 2018 R'000	3G Group R'000	Airvantage R'000	Cell C R'000	Remaining entities R'000
Revenue	**26 245 206**	1 387 029	36 929	–	24 821 248
Gross profit	**2 014 169**	226 184	29 241	–	1 758 744
EBITDA	**1 344 824**	181 322	20 650	–	1 142 852
Share of (losses)/profits from associates and joint ventures	**583 122**	31 155	–	562 567	(10 600)
– Cell C	**562 567**	–	–	562 567	–
– 3G Mobile	**31 155**	31 155	–	–	–
– Other	**(10 600)**		–		(10 600)
Core net profit	**1 385 494**	157 479	8 267	571 214	648 534
Core headline earnings	**1 384 739**	156 722	8 267	569 475	650 275
Gross profit margin	**7.67%**	16.31%	79.18%	–	7.09%
EBITDA margin	**5.12%**	13.07%	55.92%	–	4.60%

3G Mobile

From the date of acquisition of 47.37% until 30 November 2017, its financial results for the four-month period were equity accounted for as an associate. Its core net profit during that period amounted to R75 million, of which the Group's share equated to R35 million. After the amortisation of intangible assets its contribution as an associate amounted to R31 million.

On 6 December 2017 the remaining 52.67% of the Company was acquired and it became a wholly owned subsidiary from that date. Revenue generated for the six months to 31 May 2018 amounted to R1.4 billion, gross profit to R226 million at a margin of 16.31% and EBITDA to R181 million. Its core net profit for the six months as a wholly owned subsidiary amounted to R122 million.

Core net profit for the 10 months ended 31 May 2018 totalled R196 million, of which the Group's share equated to R157 million.

Airvantage

On 2 January 2018, Blue Label acquired 60% of Airvantage. Revenue generated by it for the five months to 31 May 2018 amounted to R37 million, gross profit to R29 million at a margin of 79.18% and EBITDA to R21 million.

Its core net profit contribution for the above period totalled R8.3 million.

Cell C

On 2 August 2017, The Prepaid Company acquired a 45% shareholding in Cell C.

For the 10 months ended May 2018, Cell C's net profit amounted to R1.14 billion. This comprised trading losses of R782 million offset by the recognition of a deferred tax asset amounting to R1.92 billion. The Group's share of this net profit is R512 million. BLT's accounting policies exclude equity-settled share-based payment charges from its associates and we have not early adopted IFRS 15 and IFRS 16. Thus an adjustment of R65 million and negative R6 million respectively is required.

The net result was a positive contribution of R571 million to BLT's core earnings.

Remaining entities

The decline in revenue by R1.1 billion was attributable to the continuous shift in consumer buying patterns from traditional purchasing of airtime to that of "PINless top-ups". Revenue generated on "PINless top-ups" increased by R2.7 billion from R6.1 billion to R8.8 billion (44%), equating to an effective increase of 5%, in that only the gross profit earned thereon is recognised.

Net commissions earned on the distribution of prepaid electricity continued to increase, escalating by R24 million to R239 million (11%) on an increase in revenue generated on behalf of the utilities from R14 billion to R16.9 billion (21%).

Gross profit margins declined from 7.22% to 7.09%, partly attributable to the forfeiture of R50 million in early settlement discounts. As a consequence of applying cash resources towards the acquisitive costs of the investments made during the financial year, bulk purchasing opportunities and early settlement discounts were impeded to the extent of those cash resources. The impact thereon equated to a minimum of R251 million, being the interest forfeiture that arose as a result of this alternative application of funds.

The above forfeiture of R301 million, together with an increase in overheads, which included costs attributable to the escalation of the quantum of distribution channels, had a direct impact on negative growth in EBITDA.

Core net profit was inclusive of a derivative fair value gain of R3.7 million offset by once-off costs of the imputed IFRS interest adjustments of R65 million attributable to the acquisition of 3G Mobile and Airvantage as well as R28 million pertaining to interest and costs relating to the 3G Mobile acquisition.

International Distribution

	May 2018 R'000	May 2017 R'000	Growth R'000	Growth %
EBITDA	**(2 903)**	(31 792)	28 889	(91)
Gain on associate measured at fair value	**(173 645)**	160 200	(333 845)	
Share of (losses)/profits from associates and joint ventures	**(21 647)**	(162 218)	140 571	87
– Oxigen Services India	**–**	(119 831)	119 831	100
– Blue Label Mexico	**(21 900)**	(36 978)	15 078	41
– 2DFine Holdings Mauritius	**–**	(5 409)	5 409	(100)
– Mpower	**253**	–	253	
Non-controlling interest	**(26 058)**	7	(26 065)	
Core net loss	**(225 451)**	(17 213)	(208 238)	(1 210)
Core headline loss	**(230 615)**	(16 874)	(213 741)	(1 267)

The decline in negative EBITDA of R29 million was attributable to a positive turnaround in foreign exchange movements of R24 million and loan releases of R16 million relating to the winding up process of the Africa Prepaid Services group. These positive contributions were offset by start-up expenses of R11 million incurred by Airvantage pertaining to its newly established operation in Brazil.

Non-controlling interest relates to minority shareholders in the Africa Prepaid Services group and Airvantage. The former was allocated R32 million for its share of the loan releases as a consequence of the winding up process therein, offset by the minority share of expenses of R4.8 million in Airvantage Brazil.

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

Oxigen Services India and 2DFine

In the comparative year, the investments in Oxigen Services India and 2DFine were accounted for as investments in associates and joint ventures, applying the equity method up until 30 November 2016. From that date these entities have been accounted for as venture capital investments at fair value. The fair value gain of R160 million and the Group's share of losses of R125 million, resulted in a positive contribution to Group earnings of R35 million in the comparative year.

The fair value of venture capital investments is required to be assessed at each reporting period. The change in fair value between 31 May 2017 and 31 May 2018 decreased by R173 million less deferred taxation of R3 million thereon, which together with a net loan impairment of R16 million resulted in a negative impact of R186 million on Group earnings. A further loan impairment of R71 million was accounted for in the corporate segment.

Although negotiations remain in progress with potential investors, until such time as a transaction is completed, the lack of cash resources will inhibit its propensity for growth through the roll out of a significant number of micro-ATM terminals. The latter is the essence of its ability to generate growth in the market value of the investment therein and is the cause of the necessity to reduce the fair value of the Oxigen group.

Blue Label Mexico

Blue Label Mexico's losses declined from R74.4 million to R42.8 million, of which the Group's share amounted to R21.9 million after the amortisation of intangible assets. In the comparative year the Group's share of losses amounted to R36.6 million.

The decline in loss was attributable to an increase in revenue from R3.1 billion to R4 billion (30%). This was achieved in the pursuance of its strategy by increasing the number of transactional terminals at higher ARPUs, in line with customer penetration through incremental products and services provided as well as extending its reach to merchants through the distribution channels of Grupo Bimbo.

The distribution of starter packs generates monthly compounded annuity income. This has gained momentum, placing Blue Label Mexico as the leader in SIM distribution throughout Mexico. Bill payments, credit and debit card acquiring and food vouchers have increased perpetually.

Gross profit increased by R43 million (39%), underpinned by an increase in gross profit margins. The growth in margins was congruent with the increase in the distribution of starter packs, higher margins afforded by the smaller networks and the expansion of the bouquet of its product offerings.

Operational expenditure increased by 7%, of which payroll costs accounted for the majority of the increase in line with the necessity to employ additional staff in support of the growth in business operations.

The resultant EBITDA equated to a turnaround of R27 million (98%) from a negative R27 million to break even.

Mobile

	May 2018 R'000	May 2017 R'000	Growth R'000	Growth %
Revenue	**359 970**	347 858	12 112	3
Gross profit	**204 349**	200 079	4 270	2
EBITDA	**101 883**	99 101	2 782	3
Core net profit	**59 553**	56 327	3 226	6
Core headline earnings	**59 679**	56 289	3 390	6

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

The revenue increase of 3%, resulted in a marginal increase in gross profit at static margins. Overhead increase was confined to 2%, resulting in a growth in EBITDA by 3% to R102 million.

Contribution to core headline earnings increased by 6% to R60 million, supported by an increase in net finance income through positive cash generation from operations.

Solutions

	May 2018 R'000	May 2017 R'000	Growth R'000	Growth %
Revenue	**195 089**	177 621	17 468	10
Gross profit	**63 574**	55 480	8 094	15
EBITDA	**42 838**	34 020	8 818	26
Share of profits from associates and joint ventures	**4 579**	455	4 124	906
Core net profit	**29 836**	18 956	10 880	57
Core headline earnings	**29 814**	18 956	10 858	57

Escalating demand for aggregated data and lead generations resulted in an increase in revenue by 10% to R195 million at a gross profit margin increase from 31.2% to 32.6%. Overhead increases were limited to 1%, resulting in a 26% growth in EBITDA to R43 million.

A joint venture with United Call Centre Solutions, an outbound call centre operation, contributed R4.3 million towards profitability.

Of the core headline earnings of R30 million, Blue Label Data Solutions accounted for R24.5 million in comparison to R17.5 million in the prior year, equating to growth of 40%.

Corporate

	May 2018 R'000	May 2017 R'000	Growth R'000	Growth %
EBITDA	**(146 489)**	(158 302)	11 813	7
Core net loss	**(211 463)**	(150 142)	(61 321)	(41)
Core headline loss	**(211 601)**	(150 103)	(61 498)	(41)

Of the decline in negative EBITDA of R12 million, R15 million pertained to a positive turnaround in foreign exchange movements offset by an increase of R3 million in expenditure.

The negative contribution to Group core headline earnings increased by R61 million to R211 million, which losses included the loan impairment of R71 million pertaining to 2DFine resulting from the downward adjustment to the fair value of the Oxigen group.

Statement of financial position

Total assets increased by R9.2 billion to R18 billion of which non-current assets accounted for R7.2 billion and current assets for R2 billion.

Non-current assets included increases in investments in and loans to associates and joint ventures of R6.1 billion, in intangible assets and goodwill of R998 million, in capital expenditure net of depreciation of R25.5 million, in loans receivable of R16.4 million, in trade and other receivables of R331 million and deferred tax assets of R19 million. These increases were offset by a net decrease of R266 million in venture capital associates and joint ventures.

The net increase of R6.1 billion in investment in associate and joint venture companies comprised the acquisition of Cell C, 3G Mobile and iCrypto for R5.5 billion, R0.9 billion and R11.7 million respectively, the Group's net share of profits totalling R592 million inclusive of the amortisation of applicable intangible assets and loans granted of R18.5 million. These increases were offset by the step-up of 3G from an associate to a subsidiary which amounted to R927 million, dividends received of R4.3 million and a negative impact on foreign currency translation reserves of R15.9 million.

Financial Director's report continued

Of the net increase in intangible assets and goodwill of R998 million, R432 million related to goodwill and R566 million to intangible assets. Of the goodwill increase, R381 million pertained to 3G Mobile and R53 million to Airvantage. The increase in intangible assets related to purchase price allocations raised in terms of IFRS 3 of R464 million for 3G Mobile and R193 million for Airvantage as well as an additional R48 million expended on the purchase of software and internally generated software development costs. These intangible increases were offset by amortisation of R139 million and a negative impact of foreign currency translation of R2 million.

The net decrease in venture capital associates and joint ventures of R266 million was due to a decline of R173 million in the fair value of the investment in Oxigen Services India and 2DFine, which necessitated a loan impairment of R142 million. In addition there were unrealised foreign exchange losses on loans of R9.8 million. These negative movements were offset by a capital contribution for a rights issue amounting to R25.1 million, interest capitalised of R23 million on loans as well as loans granted of R11.1 million.

Of the increase in current assets, material movements included increases in the loan granted to Cell C of R1 billion, in a financial asset at fair value through profit or loss of R168 million, in trade and other receivables of R2.8 billion offset by decreases in inventories of R1.6 billion and in cash resources of R403 million.

The increase of R168 million in a financial asset at fair value through profit or loss, emanating from the Cell C transaction, related to a USD9 million (R117 million) part payment for the acquisition of bond notes issued by Cedar Cellular Investments 1 Proprietary Limited. A net fair value gain of R5.6 million was recognised in the current year relating to this financial asset as well as the USD80 million liquidity support provided to Magnolia Cellular Investment 2 (RF) Proprietary Limited.

The stock turn equated to nine days compared to 33 days for the financial year ended 31 May 2017.

The debtor's collection period increased to 75 days compared to 39 days for the financial year ended 31 May 2017. This increase in credit afforded was indicative of the impact of financing the handset element of 24-month postpaid contracts provided to the Cell C customer base by Comm Equipment Company Proprietary Limited (CEC), a wholly owned subsidiary of 3G Mobile. The debtor's collection period afforded through traditional trading averaged 43 days.

Net profit attributable to equity holders of R994 million, less a dividend of R350 million, resulted in retained earnings accumulating to R4.3 billion.

Share capital and share premium increased by R3.9 billion congruent with the issue of 272 million shares for capital raised to facilitate part payment of the acquisitions made during the financial year.

Borrowings increased by R3 billion, of which R1.5 billion accounted for facilities utilised by CEC for the financing of mobile handsets and the balance utilised for working capital requirements.

Trade and other payables increased by R1.5 billion, with average credit terms increasing to 66 days compared to 53 days for the financial year ended 31 May 2017.

Statement of cash flows

Cash flows generated from operating activities amounted to R3.2 billion, partly attributable to a change in the working capital structure.

Cash flows applied to investing activities amounted to R7.8 billion. Of this amount, funds applied to acquisitions amounted to R5.5 billion for Cell C, R857 million for 3G Mobile, R151 million for Airvantage and R11.7 million for iCrypto Inc. A further R1 billion was loaned to Cell C for its capital expenditure requirements, R25 million relating to the rights issue in Oxigen Services India, R117 million for the purchase of the bond notes, R55 million for professional fees, R31 million for the purchase of intangible assets and R72 million for capital expenditure.

Cash flows from financing activities amounted to R4.2 billion, of which R3.65 billion related to proceeds received on shares issued and R935 million to an increase in borrowings. After applying R28.8 million to the acquisition of treasury shares and a dividend payment of R378 million to shareholders and non-controlling interests, cash on hand at year-end amounted to R948 million.

Forfeitable share scheme

Forfeitable shares totalling 1 809 711 (2017: 1 376 257) were issued to qualifying employees. During the year 456 379 (2017: 121 226) shares were forfeited and 2 432 743 (2017: 2 141 673) shares vested.

Dividend

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

Share buyback

The Board has approved a share buyback programme.

Subsequent events

On 30 June 2018, TPC subscribed for 48% of Glocell Distribution Proprietary Limited (Glocell Distribution), a newly formed company that acquired the business operations of Glocell Proprietary Limited (Glocell). The business operations include the vending of airtime and other value-added services to a long established client base. The cost of subscription for the shares amounted to R173.4 million by way of capitalising debt owing by Glocell to TPC.

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 has undertaken to purchase such inventory from the consortium on a piecemeal basis over a specified period that has been agreed upon. Any shortfall of this purchase would be in lieu of purchases made from Cell C within that period. The payment terms as between TPC and Cell C on the normal Cell C trading account would be extended by 120 days, ensuring that TPC will not be at any risk of having to purchase airtime in excess of its monthly requirements.

On 1 August 2018, BLT acquired 60% of the issued share capital of AV Technology Limited for a purchase consideration of USD6.4 million (R84.2 million).

Post-year-end the Board approved a share buyback programme.

Appreciation

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

Dean Suntup
Financial Director

28 September 2018

Ten-year review

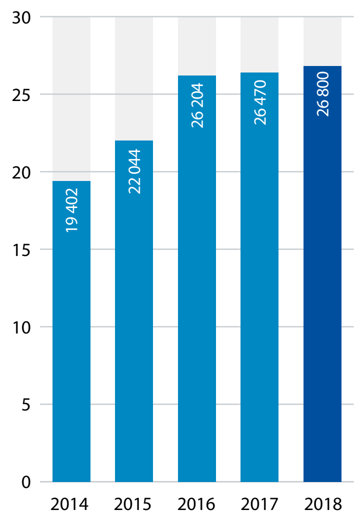
	2018 R'000	Restated** 2017 R'000	2016 R'000
Revenue	**26 800 265**	26 469 581	26 204 722
Gross profit	**2 282 092**	2 129 000	1 829 694
GP (%)	**8.52**	8.04	6.98
EBIT	**1 097 549**	1 174 890	1 142 376
EBITDA	**1 340 153**	1 287 741	1 240 559
Net profit attributable to the parent	**993 624**	781 254	691 590
Cash from operating activities	**3 188 144**	1 361 959	432 942
Cash and cash equivalents	**947 888**	1 350 666	589 027
Capital expenditure	**102 823**	113 280	127 131
Ratios			
EPS (cents)	**116.12**	114.13	103.85
HEPS (cents)	**115.42**	114.19	100.35
Core HEPS (cents)	**120.61**	116.24	102.85
NAV per share (cents)	**987.81**	730.63	662.32
Dividends declared per share (cents)	**–**	40*	36*
Dividend cover on headline earnings (cents)	**–**	2.23*	2.75*
Weighted average number of shares ('000)	**855 687**	684 508	665 950
Number of employees at year-end – subsidiaries	**874**	796	776

* *Gross ordinary dividend.*

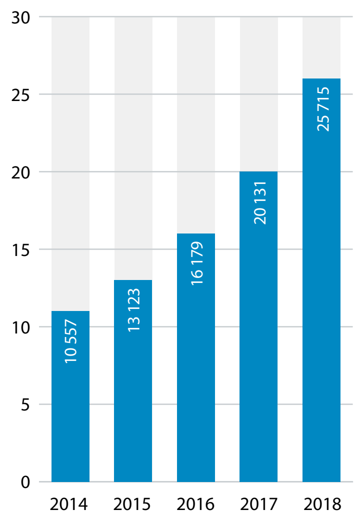
** *As a result of the revised guidance in Circular 2/2017 the Group has restated its comparative financial information for a change in accounting policy. Refer to note 10.5 of the Group annual financial statements for details.*

*** *Includes a once-off income receipt of R79.4 million.*

Revenue
(R million)

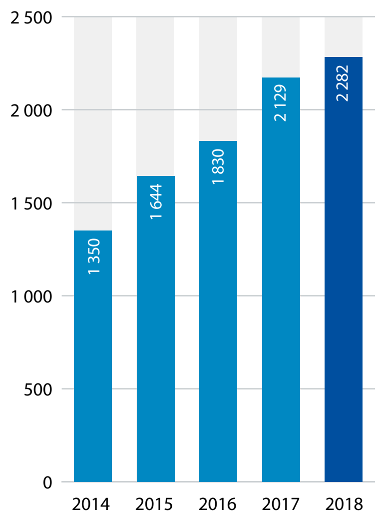


Gross PINless transactional values*
(R million)



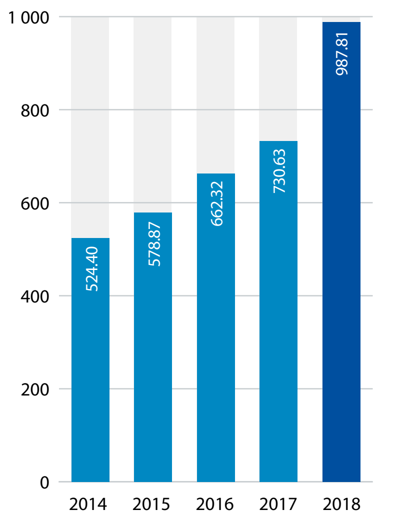
* *Includes gross electricity and PINless top ups*

Gross profit
(R million)

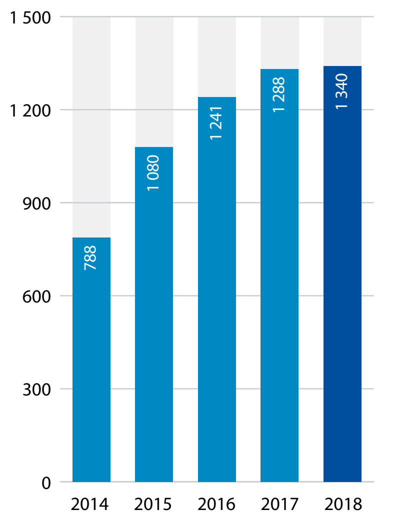


2015 R'000	2014 R'000	2013 R'000	2012*** R'000	2011 R'000	2010 R'000	2009 R'000
22 044 222	19 401 666	18 984 210	18 722 080	18 601 571	17 027 696	15 281 449
1 644 340	1 349 534	1 271 245	1 208 077	1 124 569	1 174 224	1 065 609
7.46	6.96	6.70	6.45	6.05	6.90	6.97
986 146	722 856	645 671	643 828	517 060	569 459	474 847
1 080 165	787 993	713 622	735 385	710 192	689 244	568 067
577 617	450 230	424 841	438 104	431 448	365 022	390 547
132 495	907 332	(439 794)	528 109	427 663	515 910	666 994
788 411	1 184 131	941 282	1 975 242	2 226 170	2 054 902	1 756 806
178 684	149 089	291 605	164 485	186 196	195 817	103 496
86.86	67.88	64.22	61.87	57.04	48.17	51.13
82.26	67.98	64.17	64.65	46.20	48.27	51.63
85.11	69.54	66.08	67.15	49.50	52.44	56.43
578.87	524.40	480.77	432.08	388.90	342.76	294.04
31*	27*	25*	23*	14	12	—
2.62*	2.48*	2.52*	2.95*	3.30	4.02	—
665 030	663 298	661 578	708 060	756 359	757 793	763 834
1 305	1 176	1 112	1 216	1 357	1 620	1 979

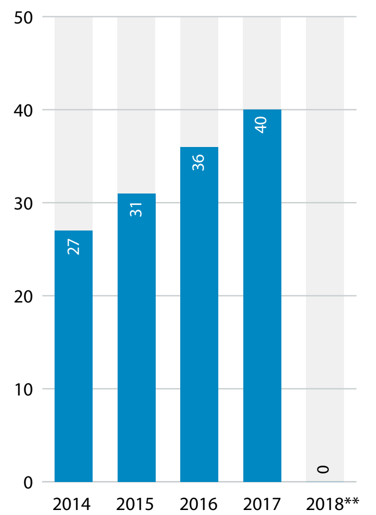
NAV per share
(cents)



EBITDA
(R million)



Dividends declared per share
(cents)



*** Share buyback programme announced.*

Value added statement

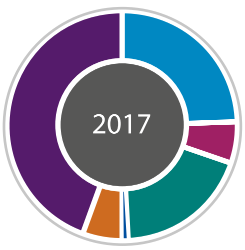
	2018 R'000	2018 %	Restated* 2017 R'000	2017 %
VALUE ADDED				
Value added by operating activities	**1 873 627**	**90.7**	1 749 186	95.7
Revenue	**26 800 265**		26 469 581	
Net operating expenses	**(24 926 638)**		(24 720 395)	
Value added by investing activities	**191 826**	**9.3**	79 125	4.3
Interest income	**191 826**		79 125	
	2 065 453	**100**	1 828 311	100
VALUE DISTRIBUTED				
Distributed to employees	**524 187**	**25.4**	452 985	24.8
Salaries, wages, medical and other benefits	**524 187**		452 985	
Distributed to providers of finance	**166 613**	**8.1**	105 518	5.8
Finance costs	**166 613**		105 518	
Distributed to the state	**330 920**	**16.0**	345 990	18.9
Income tax	**330 920**		345 990	
Distributed to social responsibility	**9 287**	**0.4**	8 460	0.5
Corporate social investment	**9 287**		8 460	
Value reinvested	**(12 863)**	**(0.6)**	100 208	5.5
Depreciation, amortisation and impairment	**242 604**		112 851	
Net discounting finance cost	**136 551**		(1 210)	
Loss/(gain) on associates and joint venture measured at fair value	**173 645**		(160 200)	
Share of (profits)/losses of associates and joint ventures	**(565 812)**		164 941	
Deferred taxation	**149**		(16 174)	
Value retained	**1 047 309**	**50.7**	815 150	44.6
Retained profit	**993 624**		781 254	
Minority shareholders' interest	**53 685**		33 896	
	2 065 453	**100**	1 828 311	100

* *As a result of the revised guidance in Circular 2/2017 the Group has restated its comparative financial information for a change in accounting policy. Refer to note 10.5 of the Group annual financial statements for details.*

Value distributed

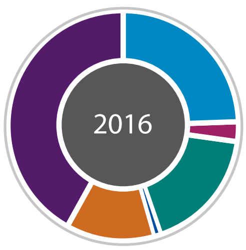
- Employees 25.4%
- Providers of finance 8.1%
- The state 16.0%
- Social responsibility 0.4%
- Value reinvested (0.6%)
- Value retained 50.7%

Value distributed



- Employees 24.8%
- Providers of finance 5.8%
- The state 18.9%
- Social responsibility 0.5%
- Value reinvested 5.5%
- Value retained 44.6%

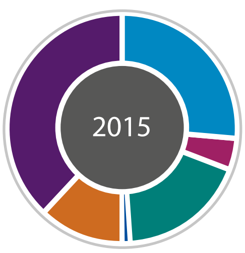
Value distributed



- Employees 24.7%
- Providers of finance 2.8%
- The state 17.6%
- Social responsibility 0.4%
- Value reinvested 12.6%
- Value retained 42.1%

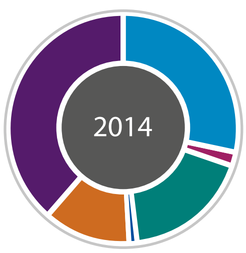
2016 R'000	2016 %	2015 R'000	2015 %	2014 R'000	2014 %
1 674 203	96.3	1 492 949	98.0	1 125 610	96.7
26 204 722		22 044 222		19 401 666	
(24 530 519)		(20 551 273)		(18 276 056)	
64 266	3.7	30 721	2.0	38 807	3.3
64 266		30 721		38 807	
1 738 469	100	1 523 670	100	1 164 417	100
427 116	24.7	407 448	26.8	332 542	28.6
427 116		407 448		332 542	
48 207	2.8	67 964	4.5	22 993	2.0
48 207		67 964		22 993	
305 420	17.6	275 768	18.1	208 996	17.9
305 420		275 768		208 996	
6 528	0.4	5 336	0.4	5 075	0.4
6 528		5 336		5 075	
219 586	12.6	185 961	12.2	145 896	12.5
98 183		94 019		65 137	
36 270		22 875		26 440	
–		–		–	
71 770		79 338		56 873	
13 363		(10 271)		(2 554)	
731 612	42.1	581 193	38.1	448 915	38.6
691 590		577 617		450 230	
40 022		3 576		(1 315)	
1 738 469	100	1 523 670	100	1 164 417	100

Value distributed



- Employees 26.8%
- Providers of finance 4.5%
- The state 18.1%
- Social responsibility 0.4%
- Value reinvested 12.2%
- Value retained 38.1%

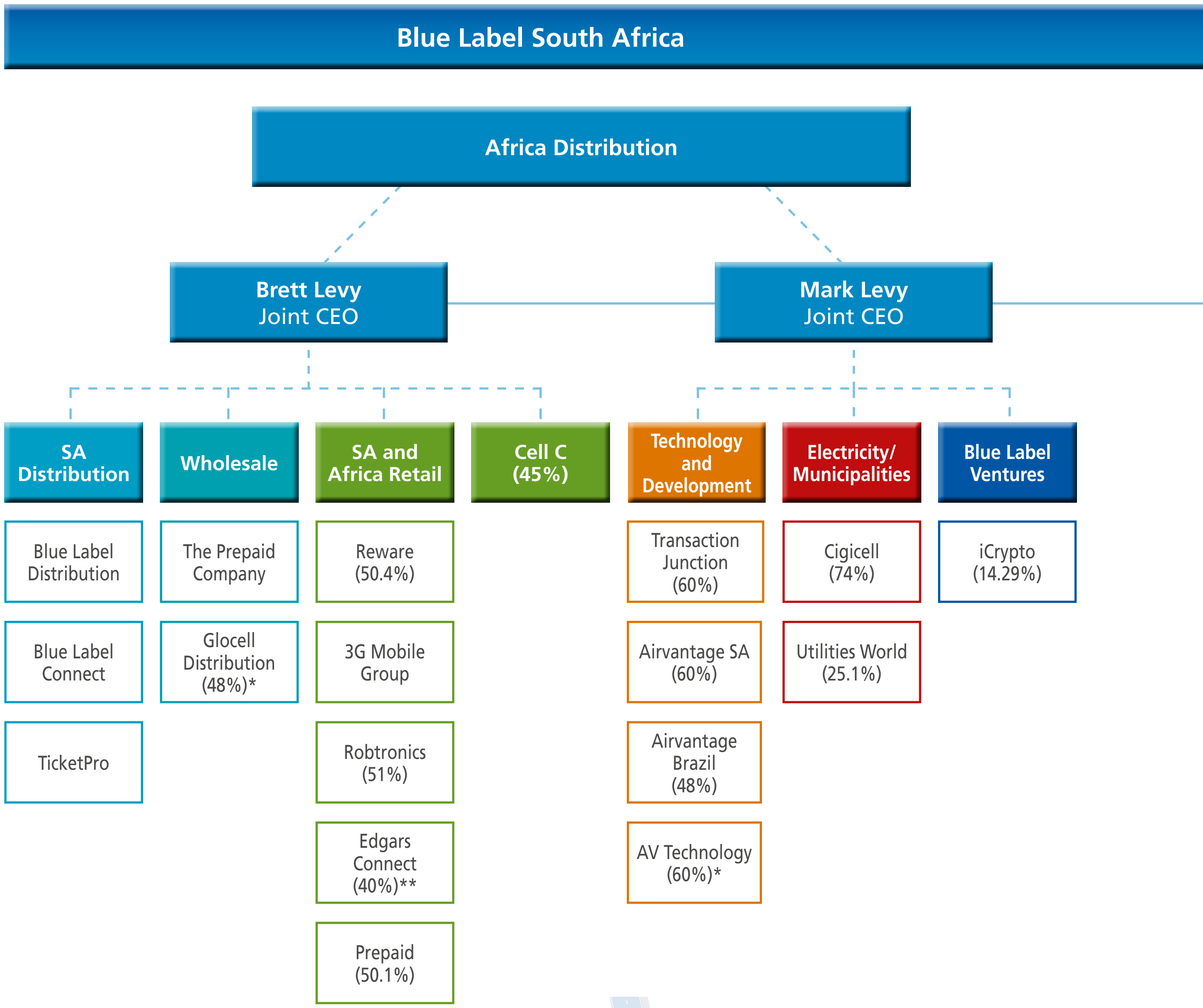
Value distributed



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

Operating structure

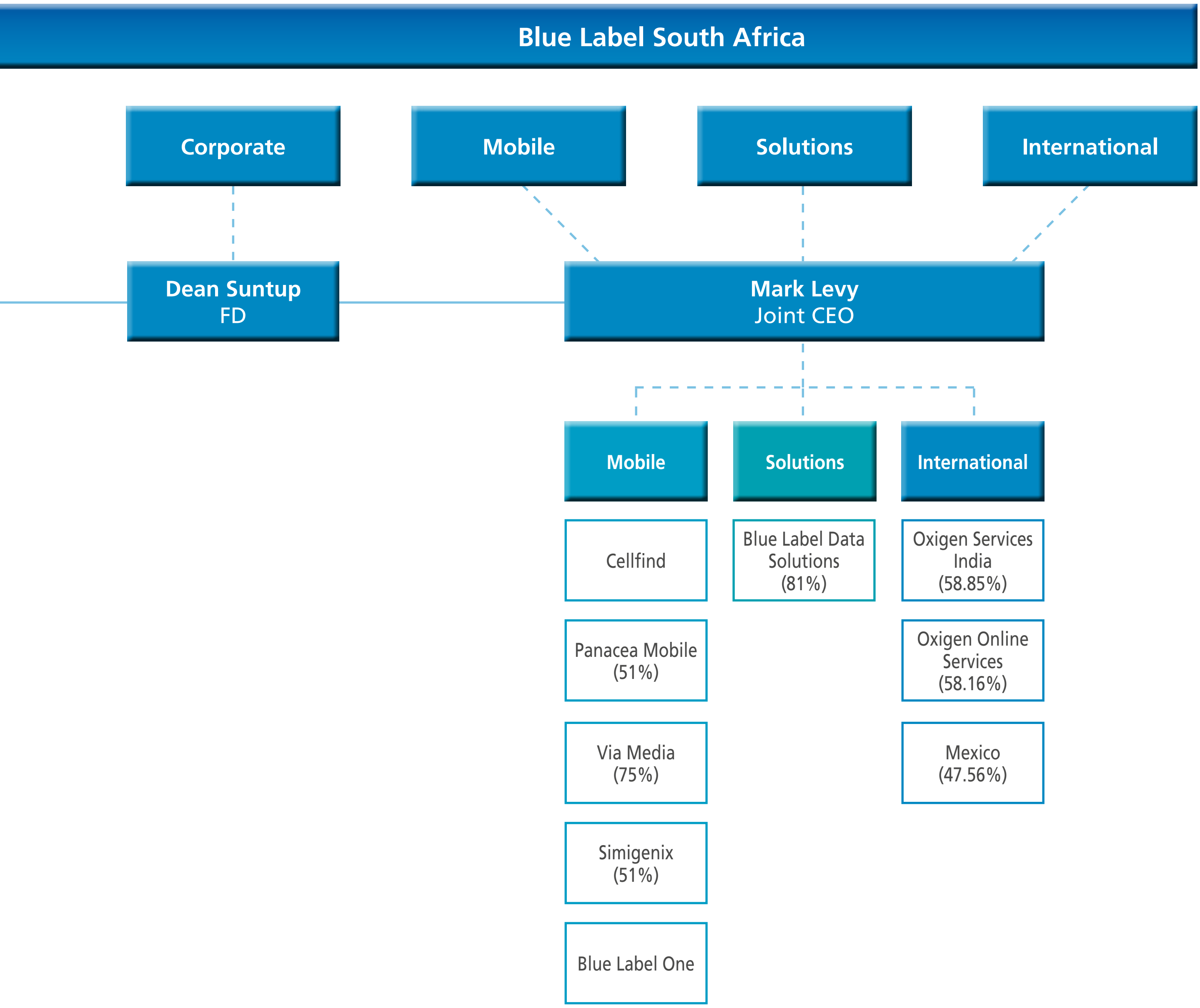
as at 31 May 2018



100% unless otherwise stated

* *Post year-end.*

** *60% acquired post year-end.*


Blue Label South Africa
Corporate
Mobile
Solutions
International
Dean Suntup
FD
Mark Levy
Joint CEO
Mobile
Solutions
International
Cellfind
Panacea Mobile (51%)
Via Media (75%)
Simigenix (51%)
Blue Label One
Blue Label Data Solutions (81%)
Oxigen Services India (58.85%)
Oxigen Online Services (58.16%)
Mexico (47.56%)

Our operational review

The 2018 financial year was characterised by the Group concluding three major acquisitions – 45% of Cell C, 100% of 3G Mobile and 60% of Airvantage. These acquisitions fit into our strategy of expanding our distribution reach, increasing our product portfolio and investing in innovative technology platforms to position Blue Label for the future and continue enhancing returns for shareholders.

In addition, we have invested in human capital by securing distribution specialists to assist us in our goal of penetrating further into the mass market and have concentrated on the streamlining of operational processes to assist us in focused customer targeting, speed to market and a true performance culture.

We have built a resilient business that is capable of organic growth and have augmented this stable with acquisitions that will drive us into the future. Our acquisitions are assessed based on their current form and what we can make of them in the future.

This operational review concentrates on core contributors to the Group's performance. All parties interested in information regarding smaller entities are encouraged to contact Investor Relations on **investors@blts.co.za**.

Africa Distribution

The Africa Distribution segment is the largest distributor of virtual prepaid products and transactional services in South Africa, covering both the wholesale and retail markets. The product range includes virtual and physical prepaid airtime, data, starter packs, hardware, prepaid electricity, entertainment, all forms of ticketing and financial services. With the acquisition on 3G Mobile, the Group now supplies handsets and handset financing to mobile network operators.

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

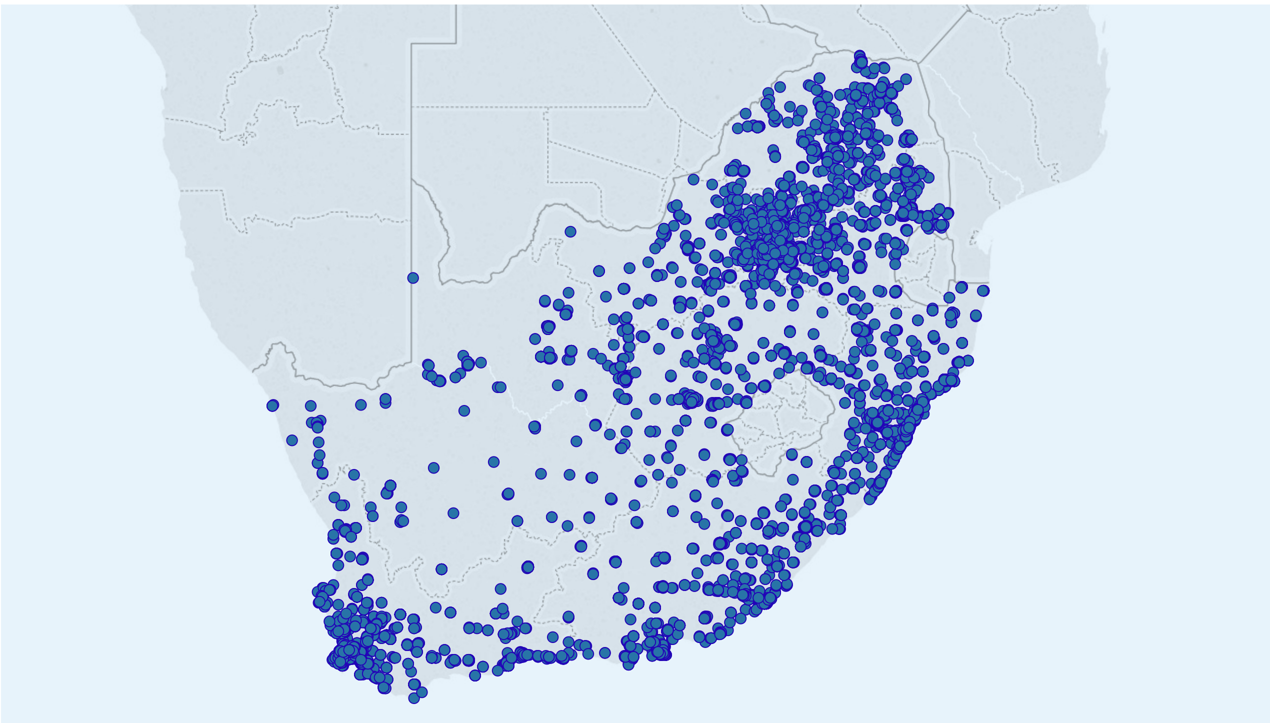
Products and services are enabled in several ways, including connectivity to terminals, touch screens, vending machines, self-service terminals, mobile platforms and third-party integration into existing POS software and mobile channels.

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

Revenue from this segment grew 1% to R26.2 billion, with gross profit increasing 8% to R2.0 billion. EBITDA remained static at R1.34 million. This was due to the application of funds towards the acquisitive costs of the investments made during the financial year, bulk purchasing opportunities and early settlement discounts were impeded to the extent of those cash resources.

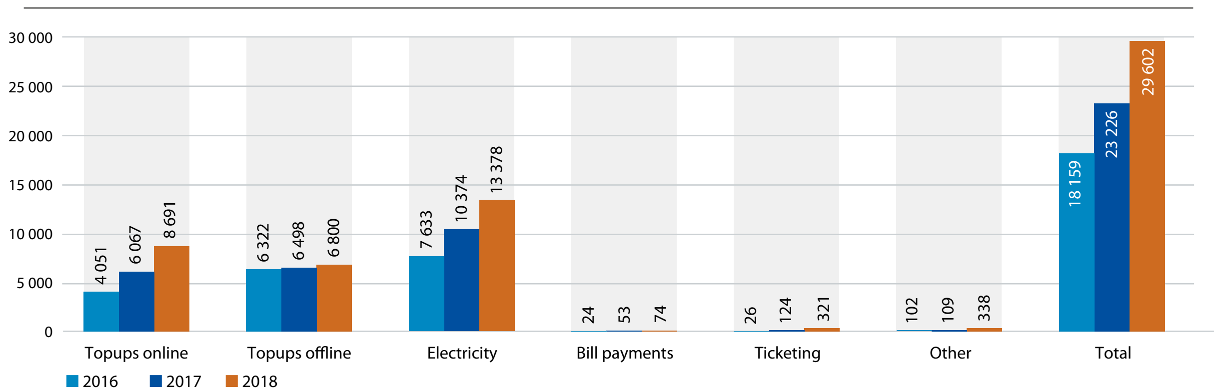
South Africa and Africa Distribution is the predominant contributor to the Group's revenue and profitability. The principal operating companies are The Prepaid Company, Blue Label Distribution, Cell C, Blue Label Connect, TicketPro, Cigicell, Prepaid24, Utilities World, Reware, 3G Mobile, Airvantage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

Our distribution footprint extends throughout formal and informal markets, ATM infrastructure and petrol forecourts in South Africa and is now beginning to make inroads into Africa.



The focus this year has been on optimising our data for targeted growth, streamlining our processes for speed to market, gearing up performance management for executing on our delivery targets and building strategic partnerships. We also continue to add to our product range to ensure differentiation from competitors. All our products have shown growth over the financial year and our new products have shown robust growth. The graph below illustrates the revenue growth of product within BLD.

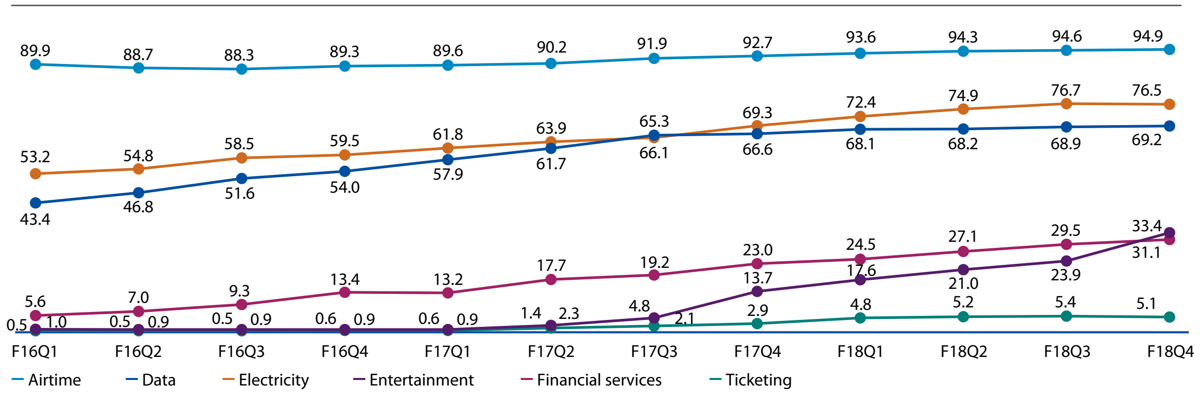
BLD product revenue growth
(R million)



Our improved data management has also allowed us to concentrate on our product penetration within our channels. We can grow our products intelligently through promotions, incentives and targeted placements. We also can extend credit to merchants while more than adequately controlling bad debt. An evolving and improving product portfolio including improved channel management allows us to encourage our customers to make more use of our services.

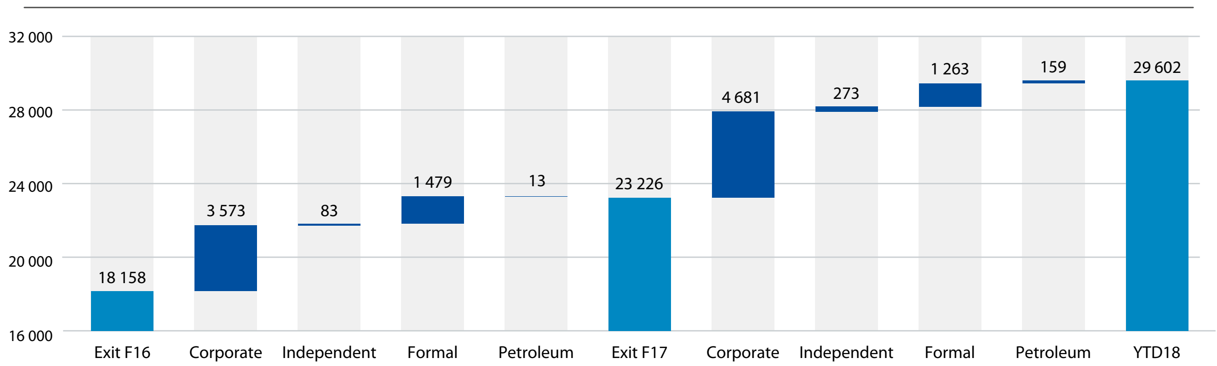
Our operational review continued

Product penetration
(%)



With regard to our channels, corporate and formal retail drove the majority of our gains. Formal retail delivered within BLD 21% growth in face value revenue and 13% growth in sales revenue while corporate delivered 49% growth in face value revenue and 33% in sales revenue. We continue to professionalise our interactions with all our customers and now participate in long-term planning with them. We are no longer just a supplier but rather a partner integral to their business. The graph below indicates the channel performance within BLD.

Gross transactional values BLD
(R million)

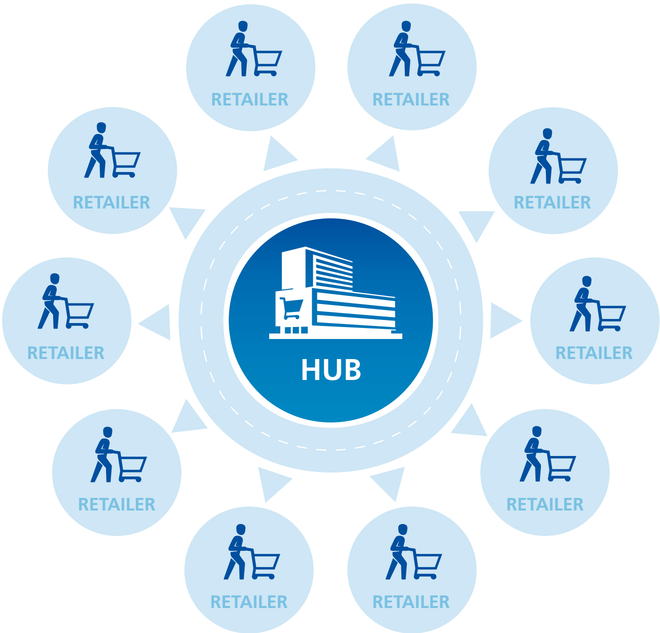


It is clear that the independent channel which includes Moms & Pops shops, spaza shops and smaller independent retailers provides an opportunity for growth. This channel is predominantly in our townships, peri-urban and rural areas. We have developed a hub-and-spoke strategy to increase our penetration and allow for greater financial inclusion within the communities we serve.

This strategy was developed by our new team of distribution specialists who are the experts in distribution of products into informal areas. In developing the strategy, we needed to take into account that in excess of 80% of South Africans earn less than R6 000 per month. While it is estimated that 70% of the population have access to bank accounts, it is well understood that these accounts are largely utilised as a means to access cash. Our reality is that a large amount of transactions for goods and services remain paid for in cash and notably these transactions are occurring closer to the home with greater accessibility than ever before.

One of Blue Label's driving motivations is to increase financial inclusion in the mass market. In order to do so, we have developed a means to service these often far-flung outposts that generate minimal spend per terminal and transact in cash. We have reduced the cost to service through using our backend technology and systems where we can determine remotely as to whether a particular device has been switched on, when it was last used, how much credit it has available, whether the battery needs replacing and what type of transactions are being conducted and how regularly. This allows us to diagnose issues remotely and service them effectively through the careful positioning of our hubs which are also geared to handle and secure large volumes of small denomination cash. The hubs provide "a home base" to all the spokes and benefit in parallel with their downstream.

We are determined to reduce the cost of living, drive accessibility of products and services, create jobs and drive financial inclusion within the communities we are present.



Financial inclusion depends on access to virtual products and service

TicketPro

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

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

Adding ticketing to our portfolio of products that run off our systems is a true differentiator. The need to purchase bus tickets or airtime, for example, provides us with the opportunity of selling more of our products to the customer on that single interaction.

The Prepaid Company (TPC)

TPC is the leading distributor of prepaid products on behalf of the major network operators. Services are supported by proprietary technology, which ensures purchasing efficiency, inventory control and activation management.

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

Reware

The Group distributes tier 3 hardware, such as handsets, phones and tablets under brand names such as Boost, Verssed and Blaupunkt. The product suite was recently augmented by smart watches and fitness bands. Reware refurbishes and distributes preowned tier 4 smartphones through its outlets in Sandton and Braamfontein.

3G Mobile

The Group's recent acquisition of 3G Mobile, offering tier 1 and tier 2 handsets, complements our hardware offering, while also facilitating the financing of the handset element of postpaid and hybrid contracts. 3G Mobile extends our product range and our geographic footprint. The company supplies tier 1 (Apple, Samsung) and tier 2 (Huawei, etc) mobile phones predominantly to Cell C in South Africa and to a range of mobile networks in Africa. The company has managed to grow in South Africa despite a depressed retail environment and has achieved over 50% growth in Namibia, Botswana and Mauritius. 3G Mobile is the largest distributor of handsets outside of MTN and Vodacom.

3G Mobile is also the only 4PL (fully comprehensive logistics provider including reverse logistics) mobile provider in Africa. Their expertise in financing hardware is allowing Blue Label to extend their services to other platforms. We are currently rolling out the financing of DSTV decoders and smart meters in South African municipalities.

Cell C

Blue Label concluded the acquisition of Cell C on 2 August 2017 for a total purchase consideration of R5.5 billion. We are confident in the strategy presented by Cell C that will lead the company to become a strong and profitable mobile operator in the South African market.

The strategic intent is evident in the strong operational performance delivered by Cell C in the six months ended June 2018. Service revenue increased by 11% to R6.9 billion, with total revenue increasing 5% to R7.8 billion. Cell C's data revenue increased 20% to R2.96 billion, off the back of aggressive competition, particularly in bundled packages like WhatsApp. In addition, EBITDA increased 16% to R2.4 billion and EBITDA margins continued to improve, increasing from 28% to 31%. On a comparative basis, net losses declined by 33% from R968 million to R645 million.

Cell C's revenue focus areas are:

- The first pillar is traditional voice and data. Voice revenue is expected to continue its decline as data begins to overtake traditional calling revenues. Data will continue to grow as a commodity product.
- The second growth pillar is mobile virtual network operators (MVNOs). Cell C already has 18 MVNOs in operation and this revenue stream has and continues to show excellent growth. Cell C has the systems necessary to operationalise this business and is currently the only operator offering this opportunity in the market. Cell C believes that this is a growing market.
- Pillar number three relates to fibre-to-the-home (FTTH). Already, Cell C is the second largest FTTH service provider in the South African market. This market will grow in line with international markets as data requirements continue to grow.
- The fourth pillar relates to content. Consumers are becoming less concerned with which networks provide connectivity and more concerned with the services the connectivity enables. Content is the largest growth market with regards to IP enabled services. The future will be about the value add that a network provides to its customers like content and financial services. Already Cell C has won global accolades for facilitating the payment for content via available airtime balances.
- The fifth pillar relates to the roaming agreement concluded with MTN. The agreement will see MTN providing both 3G and 4G services to Cell C in areas where Cell C has chosen to purchase coverage rather than self-build, mainly outside of the main metro areas. Cell C's network service offering is at 99% 2G population coverage, 96% 3G population coverage and with the implementation of this deal 4G population coverage will increase from 33% to 80%. It also offers seamless handover. Cell C's roaming agreement with Vodacom will continue. The additional 4G, as well as, quality of service through handover offers opportunities to expand revenue, through new areas now open to Cell C.

Blue Label looks forward to reporting on the revolution and evolution of Cell C into the future. Please visit the investor relation tab on **www.bluelabeltelecoms.co.za** to access Cell C's annual financial statements for the six-month period ended June 2018.

Airvantage

Airvantage extends small advances, for example R5.00, on airtime top-ups to customers who need the advance immediately. The company has extensive experience and insight into consumer behaviour and nano scorecard analysis. This allows them to guarantee the highest possible service revenue and low levels of churn and bad debt.

The company is expanding its service from pure airtime into data advances and now into electricity. We are far down the path of extending their services in mobile network operations in Africa and Brazil. We have secured a contract with TIM of Brazil, an operator larger than any in South Africa, and we look forward to presenting our progress at the next reporting period.

Blue Label Mobile

This segment comprises integrated communications, value-added services and marketing. This market is a highly competitive and mature market. The Independent Communications Authority of South Africa (ICASA) and mobile operators have imposed restrictions, like double-opt in, that have impacted growth. This is a global phenomenon.

Revenue for this segment grew by 3.0% to R360 million with net profit after tax growing by 6.0% to R59.5 million.

The Mobile segment has made a strategic decision to bundle service offerings and offer them directly to mobile networks both in South Africa, and increasingly in Africa. The strategy has changed from B2C to B2B2C. We provide complementary mobile network operator grade technology platforms at marginal cost and specifically aligned to a particular network.

Blue Label Data Solutions

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

We are compliant with the Protection of Personal Information and Consumer Protection Acts. Given that Blue Label processes and reconciles a significant number of transactions per month, we are particularly concerned about protecting our clients' information. Targeted analytics does, however, allow us the opportunity to design products better suited to service the needs of our customers.

We are developing our capability of utilising data lakes, artificial intelligence and machine learning.

Revenue increased by 10% to R195 million and net profit after tax increased by 57% to R29.8 million.

Technology

Blue Label has continued to invest in technology platforms and skills. We concentrate on adopting global best practices to ensure that the Group's business requirements are prioritised and the delivery of value to our customers. Enhancements continue to be made on our Android offering, making it easier for the end user to sell a broad range of products, as well as providing portals for hub merchants to manage downstream spokes with daily sales and reporting analysis.

Smarter technology creates efficient interactions with customers. We are constantly evolving to provide better services and greater access so that we are differentiated from our competitors. Our technology and suite of products increase revenue generation in stores within which we operate by an average of between 7% and 12%. In addition, our transaction volumes continue to increase across all our technology platforms.

Cigicell – prepaid electricity

The Group has been vending prepaid electricity for the past 13 years and is a leading distributor in its field. The supply of prepaid electricity tokens on behalf of utilities is based on the same model as that of prepaid airtime.

Commissions earned equated to R239 million on sales of R16.9 billion generated on behalf of utilities. The Group acts as an agent and not as a principal in respect of sales, resulting in only the commissions earned thereon, and not the face value of sales, being accounted for in revenue.

The Group holds a 25.1% stake in Utilities World, a provider of revenue management software and services to municipalities. The Group benefits from the re-award of distribution contracts by utilities and municipalities, distribution on behalf of additional municipalities, and growth in vending tokens in the retail and corporate channels.

International segment – India and Mexico

The Group has learned some hard lessons from its forays into the international markets. Understanding the ins-and-outs of regulatory environments can be complex and, even more tricky, is understanding the nuanced desires and operating methodology of our foreign partners and suppliers.

Given the constantly shifting regulatory environment, the fair value of our Indian operations has declined. We continue to negotiate with prospective acquirers.

Mexico has continued to improve its performance. Losses declined from R74.4 million to R42.8 million, of which the Group's share amounted to R21.9 million after the amortisation of intangible assets. This compares to last year's share of losses amounting to R36.6 million.

The Mexican economy remains sluggish with inflation expected to decrease from 6.77% to 4.0%. Revenue, however, grew 30% to R4.0 billion with gross profit increasing 39% to R43 million. EBITDA increased by 98% to break even.

Our partnership in Mexico with one of the world's largest bakery chains, Group Bimbo, is now bearing fruit and assists us in our continued roll out of point-of-sale devices.

Human capital

The Group is committed to enhancing its value proposition to our employees. We aim to create a high engagement and high performance working environment that is reflective of our values.

Talent management

As our business continues to evolve in line with changing consumer and customer needs, so too are the capabilities required across the organisation. Over the last year, Blue Label has invested significantly in attracting high calibre talent into our organisation to support our growth agenda.

Learners who have been absorbed into our organisation continue to grow and excel and are performing well in their current roles. Having seen the success of this model, we will continue to leverage learnerships as part of our talent attraction and succession planning.

Across our entities, there has been an enhanced focus on the identification of critical talent and succession planning. Leadership teams will continue to identify, engage and grow our talent in line with our succession plans and new policy on the promotion of gender and race equality in the Group.

Performance management continues to be a lever within our people strategy. It enables us to align teams and employees to the Group strategy, thereby maintaining and outperforming our growth targets. Through our bi-annual performance management processes, we are able to coach for improved performance and reward high performers.

Talent development

Blue Label is committed to growing and nurturing our talent. Staff participate in learning and development opportunities to enhance their skills, address development needs in the workplace and support career growth.

Given the pace of disruption and innovation within our industry, we continue to invest in building critical and scarce skills within the Technology Department. We have introduced internships in line with critical skills required. Our interns are our young talent and future pipeline. Through a well-structured blended-learning approach, they are building new skills and gaining experience in various roles across the function. The internships will conclude before the end of 2018 and we are hoping to absorb them into the technology team.

As we expand our footprint and grow our market share, we have invested in sales capability. We have adopted a leader-led approach to facilitate change management, ownership by line managers, and accelerated adoption and execution of our strategy. The last six months have seen the successful completion of the Hub and Spoke Academy and Sales Excellence Academy incorporating the regional managers within Blue Label Distribution. Leveraging the teaching and learning toolkits provided, our line managers have deployed learning across the sales force in weekly learning sessions. This approach has played a critical role in rapidly deploying and implementing our growth initiatives to deliver value to our customers and increase returns for our shareholders.

Employee benefits

As part of our total reward philosophy, the Group offers several employee benefits, including group life insurance (inclusive of a life policy, severe illness, disability and a funeral cover) and medical aid through Discovery Health and a provident fund through Destiny Retirement Fund. The costs of medical aid and provident fund are included in the total cost to company of employees, while the cost of the group life benefit is borne by the respective company.

Staff wellness

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

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

Employment equity

The Blue Label Group recognises the value of diversity and is committed to promoting gender and race equality in the Group. Our Board has introduced a policy on the promotion of gender and race equality in the Group which is available on our corporate website. Our talent management processes, together with this policy will enable us to improve diversity within the Group.

On an ongoing basis, the Board considers its structure, gender, race and size composition, as well as the relationship between Executive and Non-Executive Directors. It is committed to making sustainable progress towards ensuring that the Board is sufficiently gender and race diverse and has the necessary skills to competently discharge its duties having regard to the strategic direction of the Group. No specific targets have been set in relation to the Board diversity policy. With 33% of the Board being black and 11% female representation, the Board recognises that it must continue to progress race diversity and female representation in particular.

The human capital team is currently working with each Group company leadership team to build their diversity strategies. This will inform our talent acquisition and development strategy and activities. In addition, through our talent management and succession planning processes we will grow and nurture internal talent providing them with growth opportunities.

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

The employment equity plans submitted to the Department of Labour in 2012 have expired and are being reviewed, with the intention of resubmitting revised targets in early 2018 in respect of the period 2019 to 2023.

Total	AM	CM	IM	WM	AF	CF	IF	WF	Total
Unskilled and defined decision-makers	3	0	0	2	22	2	0	0	29
Semi-skilled and discretionary decision-makers	82	9	6	7	107	20	5	30	266
Skilled technical and academically qualified workers, junior management, supervisors	106	31	28	145	46	16	16	75	463
Professionally qualified and experienced specialists and mid-management	2	1	6	46	2	0	2	13	72
Senior management	2	1	0	22	1	2	2	9	39
Top management	2	0	0	22	0	0	0	3	27
Total	**197**	**42**	**40**	**244**	**178**	**40**	**25**	**130**	**896**
Actual headcount (%)	21.99	4.69	4.46	27.23	19.87	4.46	2.79	14.51	100.00
EAP target (%)	42.70	5.20	1.70	5.10	35.80	4.40	1.00	4.00	99.90
Difference (%)	**(20.71)**	**(0.51)**	**2.76**	**22.13**	**(15.93)**	**0.06**	**1.79**	**10.51**	**0.10**

** This table is based on the headcount as at the end of June 2018 as per our B-BBEE level 7 rating.*

Following the completion of our diversity strategies, we look forward to reporting on our improvements across all categories.

Health and safety

Health and safety compliance

Reportable incidents recorded	FY May 2017	FY May 2018
Total number of injuries reported	7	**10**
Total number of claims submitted to WCA (Workmen's Compensation)	7	**9**
Total number of fatalities recorded on duty	0	**0**
Total days absent as a result of IOD (Injury on Duty)	65	**153**

All health and safety policies and procedures continue to be well managed and co-ordinated via the Health and Safety Committee. All Group companies have obtained their certificates of good standing for the year under review.

Health and Safety representatives for most Group companies have been trained and are due for a retraining session in 2019. Identified gaps are being addressed.

Fire marshal training is up to date. This training takes place every two years and will therefore be repeated in 2019.

The Group currently has level 1, 3 and a level 5 BLT paramedics on site (in Sandton). Due to changes in legislation, we will be converting our employees to the required level 3 by September 2018.

Social practices

At Blue Label we aspire to contribute meaningfully to addressing inequality within society. Through the course of the year, we have collaborated with business peers, civil society organisations and others to contribute meaningfully to social upliftment. We recognise that we are uniquely positioned to leverage our unique skills and capabilities across the Group in order to bridge the educational, digital and economic gaps that exist. In addition, we tap into our employees' passions, connecting with the societies within which they live and work and causes to which they are committed.

Learnerships

Blue Label remains committed to skills development and learnerships. The Group has increased its investment from 38 learners in FY17 to 90 learners, of which 20 are disabled. They are registered on various programmes ranging from Business Administration, Accounting Technician, Technical Support, System Support, Marketing and End User Computing and New Venture Creation. Seventeen learnerships were completed during the financial year May 2018, and 16 of these learners were absorbed within the Group.

The New Venture Creation (NQF 4) Learnership

At Blue Label we pride ourselves as being entrepreneurs and have embarked on investing in and developing entrepreneurs. A total of 30 previously unemployed learners have completed 11 months in the New Venture Creation (NQF 4) Learnership. The learners have gained invaluable knowledge and experience over the period having successfully completed their learnerships in August 2018.

Enterprise and supplier development

The Group views enterprise and supplier development as a fundamental component of its transformation value chain. This is a series of initiatives that integrate our CSI, enterprise development and supplier development programmes.

Our ambition is to reorganise and empower existing and new township entrepreneurs and enterprises, through the enablement of skills development, ongoing mentorship and support. In addition, we offer business infrastructure development underpinned by the incorporation and use of technology.

Our flagship initiatives are:

1. **eSpaza Sum**
   The Group continues to provide financial support and expertise to eSpaza Sum for the refurbishment and upkeeping of 22 South African owned spaza shops. In line with our aspirations to digitise the informal sector, we are actively working together to develop innovative business management solutions for this unique sector. With the support from Blue Label the spazas have reported a collective increase in revenue amounting to over R14 million.

2. **Letsatsi Thlaba Impact Investments**
   Blue Label is the sponsor and supporter of the Letsatsi Thlaba project. The project is aligned to Blue Label's business imperatives and long-term sustainability goals. It demonstrates the true essence of our shared value principles by driving collaboration between communities, the private and public sectors. Though still at early stages of development the project is geared to formalise the informal sector and transform township economics. The two key project initiatives are the development of micro-township commercial malls, and the development of an e-commerce platform. Both projects are aligned to the government's developmental goals of leveraging technology to bridge the digital divide to achieve economic transformation.

3. **ZOK Containers**
   The Group continues to provide financial and strategic support to building entrepreneurs through ZOK's retail container project. It is another platform for absorption of the participants of our New Venture Creation (NQF 4) learnership programme.

Corporate social investment

The Group's corporate social responsibility remained unchanged for the year and predominantly focused on youth development through education and sport. Youth development is the first step in our transformation value chain, as it aims to groom our youth into becoming well-rounded individuals. In doing so, we significantly increase the likelihood of them becoming successful entrepreneurs or productive participants of South Africa's future workforce. In addition to academic interventions, we partner with other non-profit organisations to address social issues that our youth are exposed to, such as domestic violence and abuse, and food security. JAM International, Reach for a Dream, Netcare Foundation and Women and Men against Child Abuse have played a significant role in enabling our initiatives over the last year. Our flagship projects continue to be Boys & Girls Clubs of South Africa and the Blue Label Alexander Cricket Development Programme.

Boys & Girls Clubs of South Africa

Blue Label continues to be the flagship supporter of the Boys & Girls Clubs of South Africa (BGCSA), a non-profit organisation dedicated to supporting school-going and school-aged children during non-school hours, when they are often unsupervised and idle and therefore at their most vulnerable.

In addition to a safe environment and a meal, the programme promotes academic success through access to technology and career guidance. The facilitators promote a healthy lifestyle and focus on developing the characters of our youth. Once they have matriculated, Blue Label actively absorbs their alumni into the enterprise or supplier development projects of the transformation value chain or directly into our organisation.

BGCSA currently serves over 1 400 youths from three clubs. These clubs are found in Pimville, Protea Glen and Bertrams, with Alexandra soon to open its doors. BGCSA has a solid proof of concept. Growing plans include operating 10 clubs by 2020 and developing an extensive support network for more children and families across Gauteng and eventually throughout South Africa.

Blue Label Alexander Cricket Development Programme

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

The objective of the programme is to develop cricket within the Alexandra Township primary schools through a mass participation programme that focuses on teaching the fundamentals of cricket and life. The 12 week programme incorporates 6 000 children from 12 previously disadvantaged schools. This year the programme has been selected as a finalist in the 2018 South African Sports Industry Awards in the category of Developmental Programme of the Year.

Other projects

In addition to the above Blue Label has partnered with Siyakhana to develop urban gardens at the Boys & Girls Clubs. We were also one of the proud sponsors of the refurbishment of the paediatric surgical ward at the Tygerberg Hospital that was inaugurated in April this year. This was a Carte Blanche Making a Difference Trust project. Lastly our involvement in outreach projects with organisations such as Boikanyo, where we gifted two cerebral palsy twins with specialised wheelchairs suited for their specific condition.

Donors to the project: Colin Patterson – Spar Western Cape, Bianca Lima – Blue Label Telecoms and Ross Bannatyne – Spar Western Cape.

Focus areas for 2018 – 2019

This coming year our key focus is the establishment of the Blue Label Telecoms Foundation. It is through the foundation that we aim to scale the impactful work that we do in the community by not only relying on our own CSR contributions, but also in driving our own fundraising initiatives as well as attracting other sponsors and supporters to our projects.

Our focus will also shift from a generic approach to youth development, to a more focused approach that is underpinned by the introduction and incorporation of information and cellular technology (ICT), as well as innovation.

Governance philosophy and approach

Entrepreneurship and innovation underpinned by good governance

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

King IV and Blue Label Telecoms

The Group favours the outcomes-based approach of King IV that focuses on the quality of governance outcomes and not simply the structural and compliance approach. The Board sees the adoption of King IV as an opportunity to review, revitalise and streamline its governance structures and practices to the requirements of the expanding Group. A process was put in place to review the most appropriate recommended practices and adaptations to be applied in achieving the outcomes-based principles of King IV. Based on this review the Board Charter and subcommittee terms of reference and work plans have been substantially aligned with King IV practices and a number of policies, practices and processes are being reviewed and enhanced as to appropriateness and robustness as outlined in this report.

The disclosure requirements of King IV have been substantially adopted in this year's integrated report to the extent possible and explain the Group's governance philosophies, structures, practices and outcomes as well as some of the transitional initiatives to adopting and embracing the principles of King IV.

Current year Board focus and future focus

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

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

Effective and ethical leadership

Ethical leadership is centred around doing the right thing.

This is supported by ethical values of responsibility, accountability, fairness and transparency.

Ethical leadership at Blue Label is achieved through:

- our key values:
  - Customer service orientation
  - Achievement and drive to succeed
  - Honesty and integrity
  - Enjoyment
  - Collaboration
- leadership's commitment to uphold our key values; and
- the provision of mechanisms to report and manage unethical behaviour.

Blue Label's Social, Ethics and Transformation Committee is established in compliance with the Companies Act. It in turn elevates social and ethics matters to Board level. This ensures that ethics is treated as a matter of strategic importance.

We recognise that ethical leadership within Blue Label improves public trust, enhances risk, compliance, and ethics management, and strengthens stakeholder relations.

Blue Label's ethical standards are further encapsulated in its ethics statement, which serves as a framework for ethical reasoning applicable to all employees in their dealings with both internal and external stakeholders.

The purpose of the ethics statement is to:

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

Blue Label stands firm on the following matters:

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

The Social, Ethics and Transformation Committee maintains oversight of the ethics policies and applications within the Group and the Chairman of the Board sets the ethical tone for the Board as a whole. The main ethics items monitored and reported at the Social, Ethics and Transformation Committee include:

- The 10 United Nations Global Compact principles
- Reduction of corruption.
- Consumer relations and compliance with consumer protection laws.
- Environmental, health and public safety.

Employees are expected to demonstrate ethical business practices at all times. All new staff members undergo an induction programme that includes training on the code of business conduct, including the function of the ethics hotline, such as what should be reported and how to report unethical behaviour via this channel.

The ethics hotline is outsourced to KPMG Ethics Line, a division of KPMG, and can be accessed on 0800 22 10 20. The ethics hotline is available to all stakeholders. No incidents were reported during the year ended 31 May 2018.

BLT has a zero tolerance towards fraud and irregularities. As a listed entity, Blue Label Telecoms is required to take reasonable steps to prevent any fraud against the Company as well as its stakeholders. All incidents of internal fraud and irregularities need to be disclosed and investigated irrespective of the amount involved. Any investigative activity required will be conducted without regard to the suspected wrongdoer's length of service, position, title or relationship to the Company. Key provisions of the Group fraud policy include:

- Each employee of Blue Label Telecoms has an obligation to act in the best interests of the Company and must not let outside activities or outside financial interests interfere with those obligations.
- Employees must be open and transparent about all gifts and hospitality given or received and are required to disclose these. When a gift is considered lavish or extravagant, it could be construed to amount to a gratification which immediately places the organisation and individuals concerned at risk for being prosecuted for acts of corruption.
- The Company facilities, equipment, and personnel should only be used for the business's activities and purposes, except when other uses are specifically authorised by Blue Label Telecoms.
- Employees are required to always be mindful of what a payment is for and whether the amount requested is proportionate to the goods or services provided. Any suspicions, concerns or queries regarding a payment, should be clarified.
- Employees must avoid any activity that might lead to, or suggest, that a facilitation payment or kickback will be made or accepted by us.
- The ethics officer takes responsibility for managing the organisation's ethics programme. Ethics are managed by an accredited ethics officer who maintains a 'green level' supporter membership with The Ethics Institute. The ethics officer reports to the Ethics Committee on progress with the ethics management plan, and the state of ethics within the organisation.

Our future focus for ethics is to begin conducting periodic assessments in order to monitor employees and other stakeholders' adherence to ethical standards. In that way we will have a sense of our current ethical culture and will be better positioned to plan the way forward to improve on this.

Responsible corporate citizenship

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

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

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

As we extend our distribution reach, we create jobs for the merchants we enable and reduce transport and transaction costs for the communities in which they operate.

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

The investment in our people extends to our extensive and blended development programmes, training and learnership programmes (refer to Human capital section on page 51)

Our transformation plans extend to employment equity plans, enterprise and supplier development as well as specific socio-economic projects that are reported on pages 56 and 57.

The Social, Ethics and Transformation Committee specifically oversees and monitors transformation, socio-economic development, labour, employment, corporate citizenship, health, safety and environmental practices throughout the Group. Their detailed report can be found on page 78. In addition the Board actively considers the responsible corporate citizenship and making a difference in South Africa in its core strategy and purpose.

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

Value creation and reporting

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

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

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

Board composition, structure and report back

Board of Directors

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

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

Board Charter

Our Board Charter assists our Board in conducting its business according to legislative requirements and the principles of good corporate governance. It ensures that each Director is aware of his or her powers, duties and responsibilities when acting on behalf of the Blue Label Telecoms Group. The Board Charter is subject to the provisions of the Companies Act, JSE Listings Requirements, our Memorandum of Incorporation, and all other applicable legislation. The Board Charter covers the role and function of the Board; its detailed responsibilities; how it discharges its duties; the Board composition; and the establishment of Board Committees. The Board Charter as well as the terms of reference and work plans of the Board subcommittees were updated during the year to align with the requirements of King IV.

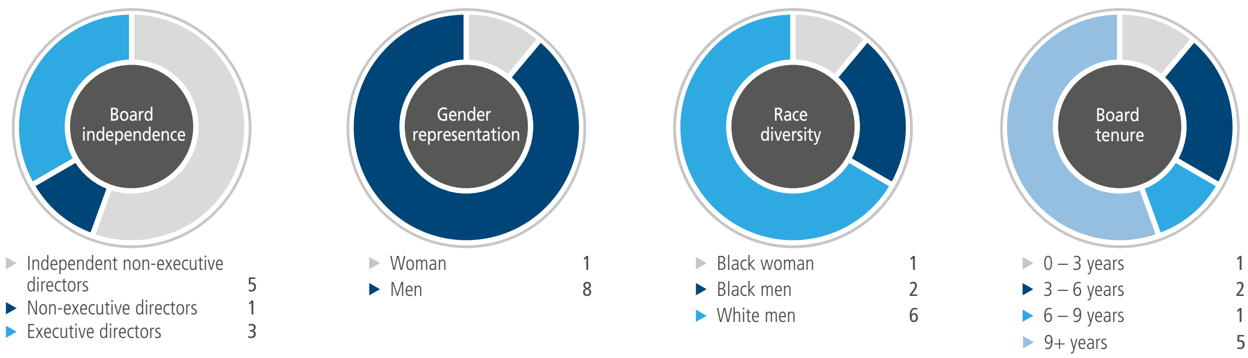
The Board has concluded that it has collectively satisfied and fulfilled its responsibilities in accordance with the charter.

Governance framework

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

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

Board composition



Board composition, structure and report back

continued

Blue Label has a unitary Board structure comprising nine Directors. Five are Independent Non-Executive Directors, while one is Non-Executive and three are Executive Directors. A biography of each Director appears on pages 18 and 19 of the integrated annual report.

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

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

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

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

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

Blue Label Group recognises the value of diversity and is committed to promoting gender and race equality in the Group. Our Board has introduced the Policy on the Promotion of Gender and Race Equality in the Blue Label Telecoms Group which is available online at **www.bluelabeltelecoms.co.za**. Our talent management processes, together with our policy will enable us to improve diversity within the Group.

On an ongoing basis, the Board shall consider its structure, its gender, race and size composition, as well as the relationship between Executive and Non-Executive Directors. It is committed to making sustainable progress towards ensuring that the Board is sufficiently gender and race diverse and has the necessary skills to competently discharge its duties having regard to the strategic direction of the Group. No specific targets have been set in relation to the Board diversity policy. With 33% of the Board being black and 11% female representation, the Board recognises that it must continue to progress race diversity and female representation in particular.

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

The Remuneration and Nomination Committee (RNC) annually debates the independence of its Independent Non-Executive Directors who have served on the Board for a period of nine years or more. Laurence Nestadt, Gary Harlow and Joe Mthimunye have been assessed in this regard and the committee has found them suitably independent, with continuing strong contributions. Laurence Nestadt, Gary Harlow and Joe Mthimunye operate independently and objectively and have no conflicts of interest.

Board composition

Board appointments

One-third of the directors retire by rotation every three years in terms of the MoI. If eligible, available and recommended for re-election by the RNC, their names are submitted for re-election at the AGM, accompanied by a short biography set out in the integrated annual report. In this regard Messrs GD Harlow, BM Levy and SJ Vilakazi will be retiring at the forthcoming AGM and, being eligible, have made themselves available for re-election. A brief biography of each Director appears on pages 18 and 19.

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

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

Ms P Mahanyele resigned as a member of the Social, Ethics and Transformation Committee with effect from 13 June 2018.

Board effectiveness

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

- effectiveness and composition;
- dynamics;
- risk management;
- succession planning;
- ethical leadership; and
- corporate citizenship.

The Board further assessed its peer Board members according to the following categories:

- leadership;
- interpersonal skills;
- strategic thinking; and
- board contribution

Based on the consolidated feedback from the assessment, the Board is satisfied with the overall performance and effectiveness of the Board, its members and the committees. The 2018 internal evaluation revealed no major concerns, however gender diversity aspirations were noted.

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

Evaluations of individual Executive Directors' performance take place annually, once during remuneration increase and performance bonus award periods and, as applicable, prior to the AGM regarding the re-election of Directors. Refer to Remuneration section (page 85) for performance evaluation of CEOs and CFO against agreed upon performance measures and targets.

Evaluations of individual Directors' performance takes place annually.

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

Company Secretary

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

Board Committees

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

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

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

Our Board subcommittees are structured as follows:

Attendance at meetings

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

* *Attendee.*
** *By invitation.*
^ *Alternate to BM Levy.*

Board composition, structure and report back
continued

Subcommittee structure and report back

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

Executive Committee

Members
MS Levy (C)
BM Levy
DA Suntup

(C) Chairman.

Key objective and terms of reference

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

The Executive Committee currently has authority to make any decision to purchase or dispose of assets and otherwise enter into any transaction outside the ordinary course of business, subject to the maximum value of the transaction not exceeding R60 million.

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

2018 Focus areas and activities

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

Refer to CEO discussion and operational review for further details.

2019 Focus areas

Key focus areas of the Executive Committee during the 2019 financial year shall include bedding down acquisitions made during the 2018 financial year and assimilating acquisition targets into the Group. As an ongoing practice, the Executive Committee is responsible for ensuring that subsidiaries:

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

Audit, Risk and Compliance

Members and attendees	Number of meetings
JS Mthimunye (C) GD Harlow P Mahanyele SJ Vilakazi BM Levy* MS Levy* DA Suntup*	**4** **Member attendance** **94%**

(C) Chairman.
** Attendee.*

Key objective and terms of reference

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

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

2018 Focus areas and activities

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

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

2019 Focus areas

- successful integration, accounting treatment of acquisitions, continued implementation of compliance framework for the Group;
- continued assessment of the impact of IFRS 16; and
- continued focus on King IV transition.

Board composition, structure and report back
continued

Remuneration and Nomination

Members and attendees	Number of meetings
GD Harlow (C of Remuneration Committee) LM Nestadt (C of Nomination Committee) JS Mthimunye BM Levy* MS Levy* DA Suntup*	**2** **Member attendance** **100%**

(C) Chairman.
** Attendee.*

Key objective and terms of reference

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

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

2018 Focus areas and activities

The RNC is satisfied with the progress in the last year towards equality and race and gender remuneration but believes future emphasis is required in the recruitment and/or development of black talent with regards to management grouping.

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

Refer to remuneration report on pages 78 to 88 for further details on our remuneration philosophy, policy and implementation.

2019 Focus areas

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

- continued review of equality of pay levels across gender and race groups throughout the Group;
- implementation of the HAY grading scheme to ensure consistency and alignment of remuneration across the Group;
- employment equity targets regarding new appointments; and
- review of financial performance targets in light of recent acquisitions in ensuring a consistent implementation in future years regarding the definition of group earnings.

Social, Ethics and Transformation

Members	Number of meetings
SJ Vilakazi (C) KM Ellerine GD Harlow BM Levy (alternate DA Suntup) P Mahanyele~	**2** **Member attendance** **90%**

(C) Chairman.
~ Resigned 13 June 2018.

Key objective and terms of reference

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

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

2018 Focus areas and activities

Our review has highlighted that more work needs to be done and that we are falling behind on our targets. To this end the committee supported the appointment of a Group BEE Compliance manager under whom CSI business development skills training falls. This is to ensure a cohesive and practical approach to achieving these BEE and employment equity goals.

Focus areas for the year have been the following:

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

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

2019 Focus areas

- continued emphasis on employment equity targets;
- development and promotion of black talent in management;
- alignment of CSI spend in terms of the shares value concept, i.e. business development within communities where we have engaged CSI programmes; and
- achievement of B-BBEE goals and scorecard ratings.

To continue to ensure the alignment of business strategy to B-BBEE requirements with particular emphasis on the JSE regulations regarding a Group consolidated scorecard.

To continue to track Group performance against employment equity targets.

To continue to monitor the Group learning and development initiatives such that they are aligned with strategic intent and B-BBEE requirements.

To scale up the Group CSI, enterprise development, and supplier development initiatives through the formation of a Foundation as an enabler for the shared value model between the various beneficiaries and the Group.

To continue to monitor and support Group health and safety policies and practices.

Investment (ad hoc, minimum two meetings)

Members	Number of meetings
GD Harlow (C) KM Ellerine DR Hilewitz BM Levy MS Levy P Mahanyele JS Mthimunye DA Suntup SJ Vilakazi**	**3** **Member attendance** **96%**

(C) Chairman.
*** By invitation.*

Key objective and terms of reference

Reviewing acquisitions, investments and disposals made within the Executive Committee's mandate.

Reviewing, considering and approving proposed acquisitions, investments and disposals of the Group recommended by the Executive Committee ranging between R60 million and R150 million per transaction.

Reviewing, considering and recommending to the Board acquisitions and investments of the Group above R150 million.

Annually review the performance of each investment and acquisition made.

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

2018 Focus areas and activities

The major acquisitions in the past year were Airvantage, 3G and Cell C. It is too early to review the performance of these acquisitions, however, our review has highlighted the need for a greater analysis of the risk profile of acquisitions to the Group particularly the impact on debt and shareholder perceptions of the risk profiles of these acquisitions.

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

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

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

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

2019 Focus areas

- In-depth review of acquisitions over the last three years; and
- review going forward the risk profile of future acquisitions and balance sheet risk (gearing cash flow, etc).

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

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

King IV functional areas

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

King IV functional area	Committee oversight	Report back
Risk	Audit, Risk and Compliance	Governance of risk (page 70) Understanding material matters (page 10)
Technology and information	Audit, Risk and Compliance	Technology and information governance (page 70) Solutions segment (page 49) Understanding material matters (page 10)
Regulatory compliance	Audit, Risk and Compliance	Compliance report (page 71)
	Social, Ethics and Transformation	Social, Ethics and Transformation Committee's report (page 78) Social practices (page 55) Human capital (page 51)
Assurance	Audit, Risk and Compliance	Approach and reporting frameworks (page 01) Combined assurance (page 72) Governance of risk (page 70) Audit, Risk and Compliance Committee's report (page 73)
Stakeholder relationships	Social, Ethics and Transformation	Stakeholder relations (page 12) Ethics in action (page 59) Social, Ethics and Transformation Committee's report (page 78) Responsible corporate citizenship (page 60) Corporate social investments (page 56)
Remuneration	Remuneration and Nomination	Remuneration report (page 79)

Governance of risk

Structure

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

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

Process

Group-wide strategic risk assessments are conducted biannually. These assessments are facilitated by the internal auditor, which plays an important role in evaluating the risk management process and guiding management to continuing improvement. The internal auditor does not take any direct responsibility for making risk management decisions or managing the risk management function.

To encapsulate our focus on the capitals and the triple context in which we operate, the risk process incorporates value drivers that broadly reflect the expectations of our stakeholders and against which risks are identified. The risk assessments conducted involve risk identification and prioritisation at subsidiary and holding company level through interviews with Senior Management and key members of Executive Management to confirm risks, their descriptions and prioritisation. Each risk is evaluated in terms of the potential impact, the likelihood of occurrence and the perceived effectiveness of controls in place to manage the risks according to set criteria. The Group has identified its strategic risks and acknowledges that its appetite to accept risk varies across those identified. The assessment process includes the setting of risk appetite and tolerance on a qualitative basis. The outcome of the risk assessments is integral in refining our strategic response and in developing a risk-based plan for internal audit engagements for the forthcoming year. Action plans are documented in response to risk appetite and tolerance thresholds that are breached. The Group's material risks are listed on pages 10 and 11.

Technology and information governance

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

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

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

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

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

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

Refer to the Group's material risks on pages 10 and 11 which includes further detail on cybercrime risk and mitigation and disaster recovery and continuity of business.

Compliance report

The IRCC oversees the discharge of legal and regulatory responsibilities. The committee monitors, assesses, researches and reports on the regulatory environment in which the Group operates. The IRCC reports to the ARCC.

The process of compliance management encompasses:
- identifying and prioritising all acts and regulations at a national level applicable to Blue Label;
- incorporating regulatory requirements into control measures such as standard operating procedures, processes, manuals and policies;
- recommending corrective measures or steps to ensure compliance; and
- monitoring compliance through the adequacy and effectiveness of control measures.

Progress made:
KPMG previously supported compliance efforts and it is now being managed internally following the appointment of Mrs Perushka Kalipershad, in November 2017 as Head of Group Risk and Compliance. Mrs P Kalipershad is a certified Compliance Practitioner (CPrac) and has membership with the Compliance Institute of South Africa (CISA).

A Group Regulatory universe has been identified and assessed in order to prioritise regulatory compliance efforts. Compliance risk management plans have been developed for high risk legislation. Regulatory updates are continuously monitored from various sources to ensure that the Group keeps abreast of matters affecting its regulatory environment.

The following represents the top three legislations per our Regulatory universe:

1 PROTECTION OF PERSONAL INFORMATION ACT 2013	The Protection of Personal Information Act imposes an obligation on companies to ensure that personal information is processed in accordance with the eight conditions of the Act. Our business model is heavily reliant on electronic data and digitised products. We have since undertaken various assessments to establish the level of compliance and have improved our control environment to ensure compliance with the Act and regulations. Ensuring adequate information security is an ongoing prerequisite for Blue Label Telecoms.
2 WASPA (WIRELESS APPLICATION SERVICES PROVIDERS' ASSOCIATION) CODE OF CONDUCT 2017	Membership of an industry body with a recognised code of conduct has been made compulsory by Telkom Mobile, Cell C, MTN and Vodacom for all WASPs (wireless application service providers). As a WASP, we continuously strive to keep abreast and comply to WASPA's code of conduct and advertising rules. In turn, members of the public are able to use mobile services with confidence, assured that they will be provided with accurate information about all services and the pricing associated with those services.
3 CYBERCRIMES AND CYBERSECURITY BILL 2015	As our business model is heavily reliant on electronic data and digitised products, we have an ongoing obligation to ensure adequate information security. We are focused on cybersecurity within Blue Label Telecoms and take a proactive approach in the prevention of cybercrime.

BLT compliance risk profile as at September 2018

The Group compliance function will continue to actively manage regulatory compliance across the business through the development of compliance risk management plans.

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

Combined assurance

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

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

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

Audit, Risk and Compliance Committee's report

The Audit, Risk and Compliance Committee (ARCC) is pleased to present its report for the financial year ended 31 May 2018.

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

Mandate and terms of reference

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

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

Membership and meetings held

In accordance with the requirements of the Companies Act, No 71 of 2008 (the Act), Messrs JS Mthimunye, GD Harlow, SJ Vilakazi and P Mahanyele were appointed to the Committee by shareholders at the Annual General Meeting held on 22 January 2018.

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

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

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

Audit, Risk and Compliance Committee's report
continued

Statutory duties discharged

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

- nominated and recommended to shareholders the reappointment of PwC as independent external auditors, with Deon Storm the audit partner, as the registered independent auditor;
- approved the fees to be paid to PwC and other external auditors, where applicable, and approved the terms of engagement;
- maintained a non-audit services policy which determines the nature and extent of any non-audit services that PwC may provide to the Group;
- discharged those statutory duties as prescribed by section 94 of the Act, acting in its capacity as the appointed Audit Committee of the subsidiary companies of Blue Label;
- considered the Committee's report describing how duties have been discharged; and
- submitted matters to the Board concerning the Company's accounting policies, financial controls, records and reporting, as appropriate.

Other duties discharged

Financial statements and reporting

The Committee:

- monitored compliance with accounting standards and legal requirements and ensured that all regulatory compliance matters had been considered in the preparation of the financial statements;
- reviewed the external auditor's report to the Committee and management's responses thereto and made appropriate recommendations to the Board of Directors regarding actions to be taken;
- reviewed and commented on the annual financial statements, interim reports, paid advertisements, announcements and the accounting policies and recommended these to the Board for approval;
- reviewed and recommended to the Board for adoption the consolidated budget for the ensuing financial year; and
- considered the going concern status of the Group on the basis of review of the annual financial statements and the information available to the Committee and recommended such going concern status for adoption by the Board. The Board statement on the going concern status of the Group is contained on page 91 of the Directors' report.

External audit and non-audit services

The ARCC has satisfied itself as to the independence of the external auditor, PwC, as set out in section 94(7) of the Act, which includes consideration of compliance with criteria relating to independence or conflicts of interest as prescribed by the Independent Regulatory Board for Auditors. Requisite assurance was sought from and provided by PwC that internal governance processes within the firm support and demonstrate its claim to independence.

To assess the effectiveness of the external auditors, the Committee considered PwC's fulfilment of the agreed audit plan and variations from the plan, and the robustness and perceptiveness of PwC in its handling of key accounting treatments and disclosures.

The Committee, in consultation with Executive Management, agreed to the engagement letter, terms, audit plan and budgeted audit fees for the 2018 financial year.

Any non-audit services to be provided by the external auditors are governed by a formal written policy which incorporates a monetary delegation of authority in terms of non-audit services to be provided. The non-audit services rendered by the external auditors during the year ended 31 May 2018 comprised tax advisory services, tax compliance services and general advisory services. The fees applicable to the aforementioned services totalled R4.1 million (2017: R8.4 million), of which R2.8 million (2017: R6.0 million) relate to non-audit services and the remainder to acquisition-related costs.

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

Internal audit and internal controls

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

The Committee:

- reviewed the cooperation and coordination between the internal and external audit functions in order to avoid duplication of work and to work towards an effective and efficient combined/integrated assurance approach;
- examined and reviewed the progress made by internal audit against the approved 2017/18 audit plan;
- considered the combined/integrated assurance plan for the 2017/18 financial year;
- approved the revised Group Internal Audit terms of reference;
- approved the risk-based internal audit plan for the 2018/19 financial year;
- considered the effectiveness of internal audit;
- considered internal audit findings and corrective actions taken in response to such findings; and
- reviewed the annual statement from internal audit on the effectiveness of the organisation's governance, risk management and internal control processes.

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

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

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

Risk management and compliance

In relation to the governance of risk, the Committee:

- reviewed the integrity of the risk control systems and ensured that the risk policies and strategies of the Company are effectively managed;
- made recommendations to the Board concerning the levels of tolerance and risk appetite, and monitored the management of risk exposures against these levels;
- reviewed and recommended to the Board approval of the Integrated Risk Assurance Policy and Framework;
- monitored bi-annual risk assessments and reviewed the consolidated strategic risk profile to evaluate and ensure all material risks have been identified as they pertain to the triple context of Blue Label, and are being managed appropriately;
- provided feedback to the Board on significant risks, including emerging risks, and significant changes to the risk profile;
- ensured that management considered and implemented appropriate risk responses to significant risks;
- considered the relevance and effectiveness of Information and Technology Governance systems, processes and mechanisms to manage technology-related risks;
- reviewed and recommended to the Board risk information for disclosure, in accordance with King IV principles;
- reviewed legal matters that could have a material impact on the Group in conjunction with Blue Label's legal adviser; and
- reviewed developments in corporate governance and best practice and considered their impact and implications across the Group with particular reference to the principles of King IV™*.

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

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

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

Expertise and experience of the Financial Director and finance function

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

Annual financial statements

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

The Committee has evaluated the Group annual financial statements of Blue Label Telecoms Limited for the year ended 31 May 2018 and based on the information provided to the Committee, the Committee recommends the adoption of the annual financial statements by the Board.

The significant audit matters considered by the Committee were:

1. the impairment assessment of goodwill arising from business combinations;
2. the impairment assessment of the investment in BLM;
3. the fair value assessment of the investment in Oxigen, Oxigen Online and 2DFine;
4. accounting for equity-accounted investment and impairment assessment of the investment in Cell C Limited; and
5. accounting for the bond notes and liquidity support.

These matters were addressed as follows:

The impairment assessment of goodwill arising from business combinations

For the year ended 31 May 2018, management performed an impairment assessment over the goodwill balance as follows:

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

Management concluded there was no need for any impairment.

The impairment assessment of the investment in BLM

For the year ended 31 May 2018, management performed an impairment assessment over the investment in BLM as follows:

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

Management concluded there was no need for any impairment.

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

The investments in Oxigen Services India, Oxigen Online Services India, collectively Oxigen Services India, and 2DFine Holdings Mauritius (2DFine) were historically accounted for as investments in associates and joint ventures, applying the equity method up until 30 November 2016. From that date, the exemption available in IAS 28 – *Investments in Associate and Joint Ventures* for venture capital organisations has been applied to these investments and accounted for in accordance with IAS 39 – *Financial Instruments: Recognition and Measurement* at fair value with changes in fair value recognised in profit or loss. In the current year a fair value loss was recognised in the income statement. In order to determine the fair value, management used an independent third party with the requisite expertise in assisting it with the determination of the fair value of the investments.

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

Accounting for equity-accounted investment and impairment of Cell C Limited

The Group acquired a 45% interest in Cell C Limited on 2 August 2017 for a purchase consideration of R5.5 billion and accounted for the investment in Cell C Limited as an associate in terms of IAS 28 – *Investments in Associates and Joint Ventures*. Management performed a purchase price allocation with the assistance from a third-party valuation expert in order to value the intangible assets acquired as part of the acquisition. These included the brand and the spectrum licence.

In order to determine the purchase price allocations, management used an independent third party with the requisite expertise in assisting with the valuation of these intangible assets.

For the year ended 31 May 2018, management utilised an independent third party to calculate the recoverable value-in-use using a discounted cash flow model. This was used to compare to the Group's carrying value in order to determine whether an impairment was required. Sensitivity analyses were also performed. Management concluded there was no need for any impairment.

Accounting for the bond notes and liquidity support

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

As part of the restructure of the debt into Cell C by third-party lenders, TPC will be required to provide liquidity support to Magnolia Cellular Investment 2 (RF) Proprietary Limited (SPV2), which is 100% held by 3C Telecommunications Proprietary Limited, of up to USD80 million, which liquidity support will be provided over 24 months and will be in the form of subordinated funding to SPV2. Oger Telecoms contributed USD36 million of the aforesaid USD80 million thus reducing TPC's obligation in this regard to a maximum of USD44 million. As at 31 May 2018, the Group has not paid any amounts to SPV2.

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

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

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

Integrated annual report

The Committee considered the integrated annual report, incorporating the annual financial statements for the year ended 31 May 2018. The Committee considered the sustainability information as disclosed in the integrated annual report and assessed its consistency with operational and other information known to its members. The Committee recommended the approval of the integrated annual report to the Board.

The ARCC is satisfied that it has complied with its legal, regulatory and other responsibilities as per its terms of reference and that it has executed its responsibilities in terms of paragraph 3.84(g)(iii) of the Listings Requirements in its assessment of the suitability of the auditor. The contents of the ARCC report was discussed at the Committee meeting and were approved by the Committee members on 28 September 2018.

On behalf of the Audit, Risk and Compliance Committee

JS Mthimunye
Chairman

28 September 2018

Social, Ethics and Transformation Committee's report

Dear stakeholders

I am pleased to report on the activities of the Committee for the financial year ended 31 May 2018.

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

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

- social and economic development, including the Group's compliance with the Broad-Based Black Economic Empowerment Act and the Employment Equity Act;
- consumer relations and the Group's compliance with consumer protection laws;
- the Group's standing in terms of the ILO protocol on decent work and working conditions, the Group's employment relationships and its contribution to the educational development of its employees;
- good corporate citizenship, including the Group's promotion of equality, prevention of unfair discrimination and reduction of corruption, contribution to development of the communities in which the Group operates, and its record of sponsorships, donations and charitable giving;
- the environment, health and public safety and the impact thereon of the Group's activities; and
- the 10 principles of the United Nations Global Compact.

This year the Committee met twice in line with its terms of reference. Areas discussed with management included transformation across the Group's workplace focusing on ensuring progress in meeting the Company's transformation objectives and regulatory compliance. The Committee ensured that the Group publishes its consolidated B-BBEE rating in respect of the 2018 financial year by no later than 31 August 2018 as required by the JSE of all listed entities to publish a consolidated B-BBEE scorecard on its website, issue a SENS announcement and submit a report to the B-BBEE commissioner within 90 days of the completion of the financial year-end.

In addition to monitoring and reporting on progress to date, the Company continued to explore implementation strategies to increase its B-BBEE compliance levels in line with our good corporate citizenship commitments. The Committee reviewed the impact of the revised and implemented dti codes of good practice to the Group and satisfied itself that management is ensuring a rigorous process to ensure compliance at individual subsidiary levels and that divisional management incorporates the Company's transformation objectives as an integral part of their day-to-day performance scorecards.

The Committee interacted with Senior Management and Group CEOs to ensure inculcation of the guidance and recommendations of the Committee into both strategic and operational plans within the Group and its subsidiaries.

The Committee continues to monitor progress of the roadmap to address the Company's equity targets and B-BBEE shortfalls. We will continue to review current initiatives and their effectiveness and make appropriate recommendations to the Board.

The following items were also considered and implemented during the year:

- The Committee amended its terms of reference to ensure alignment with King IV that requires that the Social and Ethics Committee provides oversight and reporting on organisational ethics in a way that establishes an ethical culture within the Group.
- The Committee noted and approved the revised final CSI Policy whose intention was to ensure that the principle of shared value for all stakeholders is embedded into all Group CSI initiatives. The new philosophy of Group CSI is around creating shared value and centralised co-ordination of resource application for high impact and Group outcomes.
- The monitoring of the coaching and skills development initiatives to ensure targeted spend of Group priorities and transformational objectives.
- Employment equity, including feedback from Group Employment Equity Committee.
- The Committee continued to monitor Group compliance with the 10 principles of the United Nations Global Compact (UNGC). We are glad to report that the Group has implemented measures for the prevention and combating of all forms of corruption in line with all applicable local legislation and the 10th principle of the UNGC. Monitoring of the ethics statement and the implementation of the Whistle Blowing Policy of the Group remained a key monitoring tool for the Committee.
- The Committee continued to monitor all CSI projects in particular our ongoing support of the flagship project; the Boys and Girls Clubs in Protea Glen, Soweto, which the Group is proud to be associated with as well as the cricket initiative in Alexandra.
- The Committee further noted that all health and safety policies and procedures continue to be well managed and co-ordinated via the Health and Safety Committee.

The Committee believes that the Group complies with the statutory duties, save for issues being addressed by management with regard to employment equity and aspects of procurement as the Group purchases mainly from the networks and power utilities. In addition, work continues to be undertaken to improve on the Group's B-BBEE equity scorecard.

I look forward to reporting on our progress next year.

SJ Vilakazi
Chairman

28 September 2018

Remuneration report

Philosophy

Blue Label's remuneration philosophy is to reward employees and executives in a fair and equitable way in order to attract the best talent and ensure a culture of high performance in the execution and support of Blue Label's business strategy and vision. Rewards are set at levels that are competitive and drive performance in the short and long term, ensuring alignment with stakeholder interests and promoting business sustainability as well as an ethical culture and responsible corporate citizenship. Incentive-based rewards are earned through the attainment of demanding key performance indices and targets, consistent with Company and shareholder growth expectations. The key performance indices and targets are determined in order to promote the achievement of the Group's strategic objectives within a tolerable risk appetite, to ensure that excessive risk taking is not rewarded and ensure that appropriate controls are in place to manage risk.

We consult our key shareholders on any proposed changes to our Remuneration and Reward Policy with due cognisance given to the non-binding advisory votes at the AGM.

In the previous year the following matters were raised by various shareholders:

- Increase in Chairman remuneration.
- The rationale for the outperformance bonus.
- Detailed explanation and justification of the financial performance criteria.
- Assurance on exceptions on policy implementations.

Resulting therefrom we received a 96.28% vote in favour of the Group Remuneration Policy at the AGM, and in this forthcoming year, taking cognisance of shareholder suggestions.

Incentive packages, both short and long term, are aligned with best practice and benchmarked where we aim to be in the median group for total fixed remuneration (TFR) and between median and top quartile of the peer review group for STIs and LTIs. Reviews are performed utilising the services of a third-party consultant, Korn Ferry Hay Group (The HAY Group) who are independent. Following this consultation, we adjusted the fixed remuneration policy from top quartile to median, emphasising the importance of keeping the STIs and LTIs in the upper quartile to promote out performance and retention. Our goal is to profile Blue Label as an "employer of choice", enabling us to attract and retain the best skills required in a constantly evolving technology landscape, enhancing our ethos of entrepreneurship and innovation.

The Remuneration and Nomination Committee (RNC) strives to meet all requirements of the JSE and King IV and will take cognisance at the AGM of any vote against the Remuneration and Reward Policy and implementation report of 25% or more of the votes exercised and will, as a matter of policy, engage where necessary to ascertain the reasons thereof and where legitimate reasonable objections are raised.

We are pleased to report that at the 2017 AGM, votes in respect of the non-binding advisory vote on endorsement of the Group Remuneration and Reward Policy was 96.32% in favour, 3.68% against and 0.04% abstained. The 2018 AGM notice will split the non-binding advisory vote between the Remuneration and Reward Policy and the implementation report.

Governance

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

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

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

Key duties of the RNC include:

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

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

Each year, independent advice on market information and remuneration trends is provided to the RNC by external remuneration consultants. Blue Label's Human Resources department also assists the Committee by providing supporting information and documentation relating to matters for its consideration, including the assessment of proposed changes to legislation, such as determining the employer's responsibility to provide retirement funding for staff. Ad hoc consultations are held with key institutional shareholders for their comment and input. During the year the Chairman of RNC engaged the views of three of the largest institutional shareholders on the Remuneration and Reward Policy and implementation as outlined.

Additional governance principles applicable to the composition and principal activities of the RNC are fully set out on page 58 (Governance Framework – Board Committees) of the integrated annual report.

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

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

Future focus areas of the RNC with regard to the Remuneration and Reward Policy include:

- continued review of equality of pay levels across gender and race groups throughout the Group;
- implementation of the HAY grading scheme to ensure consistency and alignment of remuneration across the Group;
- employment equity targets regarding new appointments;
- review of financial performance targets in light of recent acquisitions in ensuring a consistent implementation in future years regarding the definition of Group earnings.

Policy

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

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

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

REMUNERATION DESIGNED TO SUPPORT BUSINESS STRATEGY AND VISION

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

	Fixed remuneration			
	Base salaries	**Non-Executive Directors' fees**	**Retirement benefits**	**Other benefits**
Purpose	Provides a fixed level of earnings appropriate to the requirements of the role.	Remunerates Non-Executive Directors for their Board and Board Committees' responsibilities and time commitments.	Provides for retirement savings.	Provides benefits appropriate to the market and the role.
Application dependent on employee type and level	All employees.	Non-Executive Directors.	All new employees since October 2016 are required to join the Group provident fund. This is employee funded. All existing staff are eligible to contribute towards the provident fund.	Employees earning in excess of R6 500 per month are required to belong to the approved medical aid, alternatively they may be a dependant on their spouse's medical aid. Sales commissions are paid to sales staff.
Operational and performance measures	Fixed remuneration is reviewed annually in order to ensure that Executive Directors and Senior Management, who contribute to the success of the Group, remain remunerated at appropriate levels in accordance with the remuneration philosophy. Blue Label applies a discretionary approach in all remuneration reviews and there is no minimum across-the-board increase to all employees. Salary increases for the 2018 financial year ranged from between 0% to 6% (2017: 0% to 6.5%). Any variations to these parameters would relate to promotions and alignment with new HAY grades. Management of each operating company were granted discretion to apply an appropriate increase, within the stipulated range, to each staff member under their control.	Non-Executive Directors receive annual fees for their services rendered on the Board and Board Committees, that may be adjusted on a pro rata basis dependent on the number of meetings attended by them. Non-Executive Directors do not receive short-term incentives, nor do they participate in the forfeitable share plan or outperformance bonus of the Company. Non-Executive Directors' fees have been aligned with comparative fees payable to Non-Executive Directors of listed companies of a similar size as well as the sector in which they are quoted, adjustments have been proposed to ensure that the fees are benchmarked in the upper quartile of the peer review group, in order to ensure retention of our Non-Executive Directors and enable attraction of future directors with the necessary experience and expertise to guide the Group in achievement of its strategic goals. Annual increases are aligned with inflation. The fees payable to the Chairman and Non-Executive Directors are recommended by the RNC to the Board which, in turn, proposes the fees for approval by the shareholders at the AGM. Non-Executive Directors may be contracted to render services to the Group in addition to the foregoing services from time to time. There were no services contracted with Non-Executive Directors during the year. The proposed annual capped Non-Executive Directors' remuneration for the 2018 financial year is illustrated on page 89 but may be adjusted on a pro rata basis dependent on the number of meetings attended by them.	The Group Provident Fund is compulsory for all new staff and elective for all existing staff (employed prior to October 2016). The fund is employee funded. The minimum contribution is 5% of pensionable income increasing in increments of 2.5% to a maximum of 27.5%.	The Group offers an employer funded Group life benefit which includes a death benefit, disability benefit, severe illness benefit and a funeral benefit. The Group also acknowledges long service for 5, 10, 15 and more recently 20 years' performance. Sales commissions are based on levels of sales at agreed percentage rates.

	Short-term incentives	Long-term incentives	
	Incentive bonus	**Forfeitable share scheme**	**Outperformance bonus**
Purpose	Reward and motivate the achievement of Group and subsidiary financial targets, as well as strategic and personal performance.	Reward sustained long-term performance and to align the interests of the Executive Directors and senior managers with those of shareholders.	Linked to the annual growth in the share price, with the intention of recognising and rewarding their contribution to the overall performance of the Group.
Application dependent on employee type and level	All Executive Directors and senior managers – Performance based. All other employee levels receive a 13th cheque.	All Executive Directors and senior managers.	Executive Directors and identified key Senior Management.
Operational and performance measures	Executive Directors and senior managers: An annual incentive bonus structure which is based on the achievement of short-term performance targets and is measured against the achievement of financial (80% weighting) and non-financial (20% weighting) metrics. The Joint CEOs may earn a maximum annual incentive bonus of up to 120% and the Financial Director of up to 70% of annualised fixed remuneration. Senior Management may earn up to 50% of their annualised fixed remuneration. For senior managers the financial (80%) metrics are further split between the performance of the subsidiary (60% of the 80%) and on Group performance (20% of the 80%). The following criteria will be taken into account in determining qualification for the non-financial metrics (20%): ▶ the achievement of agreed transformation targets; ▶ progress in delivering the Group's growth strategy; ▶ the roll-out of the Group's transactional footprint; and ▶ the rate and level of progress made in respect of organisational development and succession planning, together with the application of leadership qualities, corporate governance best practices and risk mitigation.	Targets comprise retention and financial measures with the financial measures split between core headline earnings growth and shareholder returns. Allocations have been made for the 2015, 2016 and 2017 share schemes in those relative years. The 2018 share scheme was allocated in September 2018. The quantum of shares to be awarded is calculated on an annual basis, based on a percentage of the recipient's annual cost to company, on the following basis: ▶ Executive Directors 35% ▶ Senior managers 18% or 25% The financial performance criteria for the forfeitable shares allocated in 2017 onward to senior managers will be measured on vesting at subsidiary level. The vesting criteria comprise: ▶ retention; ▶ growth in core headline earnings per share; and ▶ growth in shareholder returns over the three-year vesting period measured with reference to the compounded growth in the weighted average price per share during the month of the commencement of the allocation plus dividends over the three-year period against the weighted average share price for the month during which the vesting takes place. If a participant's employment terminates by reason of his resignation or dismissal on grounds misconduct, poor performance or proven dishonest or fraudulent conduct before the release date, the forfeitable awards are forfeited, except to the extent that the Board shall determine otherwise in its discretion.	This bonus, awarded in shares, is earmarked for Executive Directors and identified Senior Management and will be based on the growth in the share price. The quantum of shares to be awarded will be calculated on an annual basis at the end of each financial year and at the ruling share price at that date. In total 50% of the award will vest one year later and a further 50% one year thereafter, on the proviso that the recipients remain in the employ of the Company throughout the relative vesting periods.

Vesting criteria

Incentive bonus

The 80% financial component is based on the achievement of core headline earnings growth in comparison to CPI. This financial element will be earned in the following percentages if growth in core headline earnings per share is:

	Executive Directors	Senior managers
Less than CPI	0%	0%
Equal to CPI plus 10% (or pro rated as the case may be)	70% of the 80% at Group level	70% of the 60% at subsidiary level; and 70% of the 20% at Group level
Greater than CPI plus 10%	100% of the 80% at Group level	100% of the 60% at subsidiary level; and 100% of the 20% at Group level

The 20% non-financial component is based on the achievement of criteria, as mentioned above.

Forfeitable share scheme

The vesting criteria for the 2018 share scheme allocation, the measurement period being 1 June 2018 to 31 May 2021 are as follows:

	Executive Directors	Senior managers
Retention (three years from date of award)	33.33%	40%
Growth in core headline earnings per share:		
▶ is 5% above CPI compounded annually over three years, then 20% of the 33.33%/30% will vest	6.7%	6.0%
▶ between 5% and 10% above CPI compounded annually over three years, then 70% of the 33.33%/30% will vest; and	6.7% to 23.3%	6% to 21%
▶ between 10% and 25% above CPI compounded annually over three years, then 100% of the 33.33%/30% will vest.	23.3% to 33.33%	21% to 30%
Growth in shareholder return	33.33%	30%

Refer to note 5.1 in the Group annual financial statements for the vesting criteria on the 2015, 2016 and 2017 schemes.

Outperformance bonus

The percentage of annual cost to company that can be earned based on the growth in the share price is within the following ranges of share price growth:

Below 15% growth	0%
Between 15% and 20% growth	Pro rata to 50%
20% or more growth	50%

Executive Directors' service contracts

The three-year service contracts of the following Executive Directors were renegotiated and renewed on 14 November 2017:

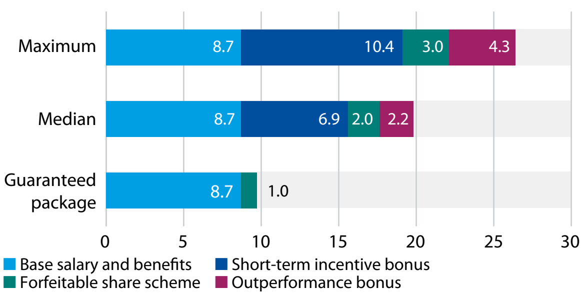
- BM Levy
- MS Levy
- DA Suntup

BM Levy and MS Levy have agreed to the tenure of their restraint of trade undertakings to endure for a period of 36 months as opposed to 12 months that was conditional in the previous contract. In return for this extension of restraint they will receive a restraint payment of R10 million each, payable in 36 equal monthly instalments commencing on 1 November 2017. These terms were incorporated in their renewed employment contracts. There are no contractual termination benefits in place for the Executive Directors.

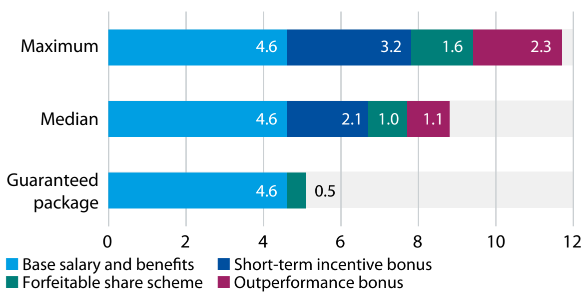
Executive Directors' composition of total remuneration

The graphs below provide an indication of remuneration outcomes for the Executive Directors showing potential total remuneration awards of maximum, median and minimum performance levels.

Joint Chief Executive Officers
(R million)



Financial Director
(R million)



The scenario charts assume:

- Base salary and benefits – fixed pay and benefits for the year ended 31 May 2018.
- Short-term incentives – short-term performance-related bonus payments up to a maximum of 120% (joint CEOs) and 70% (Financial Director) of annualised fixed remuneration.
- Forfeitable share scheme – current year awards based on 35% of annualised fixed remuneration subject to meeting retention and performance conditions over the next three years (assumed 33.3% retention condition will be met).
- Outperformance bonus – additional share allocations linked to the current growth in the share price meeting specified ranges up to 50% of annual cost to company.

- Maximum – base salary and benefits plus 100% of STI and LTI criteria being achieved.
- Median – base salary and benefits plus 100% retention portion of the forfeitable share scheme plus the median of STI and LTI (excluding the retention portion) criteria being achieved.
- Guaranteed package – base salary and benefits plus 100% retention portion of the forfeitable share scheme only.

Implementation report

Tables of single total figure of remuneration

The single total figure of remuneration disclosure is based on the IoDSA and SARA application guidance issued in November 2017 on remuneration disclosure in accordance with King IV and presents the remuneration for Executive Management consisting of the Executive Directors of Blue Label Telecoms. The comparative information has been presented in a manner consistent with the current year presentation.

Executive Directors' remuneration for the year ended 31 May 2018	Explanatory notes	**BM Levy R'000**	**MS Levy R'000**	**DA Suntup R'000**	**Total R'000**
Fixed remuneration (including salary, allowances and retirement benefits)		**8 486**	**8 499**	**4 425**	**21 410**
Other benefits		**176**	**163**	**163**	**502**
Short term incentive bonus	1	**–**	**–**	**–**	**–**
2017 forfeitable share scheme – retention component on award date (1 September 2017) at fair value	2	**1 011**	**1 011**	**535**	**2 557**
2014 forfeitable share scheme – growth performance component on vesting date (31 August 2017) at fair value	3	**3 143**	**3 143**	**1 665**	**7 951**
Outperformance bonus on award date at fair value	1	**–**	**–**	**–**	**–**
Three-year restraint of trade award settled in equal monthly instalments over 36 months with effect from 1 November 2017	4	**10 013**	**10 013**	**–**	**20 026**
Single total figure of remuneration		**22 829**	**22 829**	**6 788**	**52 446**
2017 forfeitable share scheme retention component	5	**(1 011)**	**(1 011)**	**(535)**	**(2 557)**
2014 forfeitable share scheme – vesting of retention component in the current year at fair value	6	**2 096**	**2 096**	**1 110**	**5 302**
Dividends on vested shares	7	**317**	**317**	**168**	**802**
Short-term incentive bonus of prior year paid in August 2017	8	**7 808**	**7 808**	**2 412**	**18 028**
Restraint of trade award still to be settled in 29 equal monthly instalments	9	**(8 066)**	**(8 066)**	**–**	**(16 132)**
Total cash equivalent value remuneration received for the year ended 31 May 2018	10	**23 973**	**23 973**	**9 943**	**57 889**
Reconciliation to note 5.3 of the Group annual financial statements					
Remuneration as disclosed in terms of IFRS		**10 609**	**10 609**	**4 588**	**25 806**
Total cash equivalent value remuneration received for the year ended 31 May 2018		**23 973**	**23 973**	**9 943**	**57 889**
Difference to remuneration as disclosed in note 5.3		**13 364**	**13 364**	**5 355**	**32 083**
Reconciling items:					
Short-term incentive bonus accrued in May 2017 and settled in August 2017		**7 808**	**7 808**	**2 412**	**18 028**
Dividends on shares vested in the current year		**317**	**317**	**168**	**802**
2014 forfeitable share scheme that vested in the current year at fair value		**5 239**	**5 239**	**2 775**	**13 253**
2014 forfeitable share scheme – growth performance component on vesting date (31 August 2017) at fair value		**3 143**	**3 143**	**1 665**	**7 951**
2014 forfeitable share scheme – vesting of retention component in the current year at fair value		**2 096**	**2 096**	**1 110**	**5 302**
		13 364	**13 364**	**5 355**	**32 083**

1. *No STI or outperformance bonuses, for the year ended 31 May 2018, were payable.*
2. *The 33.33% LTI retention portion of the 2017 forfeitable share scheme, awarded on 1 September 2017, which will vest in three years from that date provided that the Executive Directors remain employed by Blue Label Telecoms. As there are no further performance conditions, this portion of the award is recognised at fair value in "the single total figure of remuneration" in the year of award.*
3. *The 66.67% LTI growth in core HEPS and shareholder return of the 2014 forfeitable share scheme that vested 1 September 2017.*
4. *The restraint of trade payments of the joint CEOs, although payable in 36 equal instalments, have been included in total in "the single total figure of remuneration" in that there are no conditions pertaining thereto other than retention of employment. This took effect from the 1 November 2017.*
5. *The 33.33% LTI retention portion of the 2017 forfeitable share scheme is deducted from "the single total figure of remuneration", as vesting will only take place on 31 August 2020.*
6. *The 33.33% LTI retention portion of the 2014 forfeitable share scheme is added to "the single total figure of remuneration", as vesting took place on 31 August 2017.*
7. *Dividends are the total of cash receipts during the financial year applicable to the 2014 forfeitable share scheme, as vesting took place on 31 August 2017.*
8. *These amounts relate to the STI bonuses paid in August 2017, which were derived from performance for the year ended 31 May 2017.*
9. *These amounts represent 29 equal monthly instalments, being the balance payable, post 31 May 2018, on the restraint of trade agreements.*
10. *Cash equivalent value remuneration represents the total proceeds paid to the Executive Directors for the period 1 June 2017 to the 31 May 2018, inclusive of the cash element of basic remuneration, STIs, LTIs and dividends.*

Executive Directors' remuneration for the year ended 31 May 2017	BM Levy R'000	MS Levy R'000	DA Suntup R'000	Total R'000
Fixed remuneration (including salary, allowances and retirement benefits)	7 973	7 985	4 159	20 117
Other benefits	160	149	149	458
Short-term incentive bonus	7 808	7 808	2 412	18 028
2016 forfeitable share scheme – retention component on award date (18 October 2016) at fair value	949	949	503	2 401
2013 forfeitable share scheme – growth performance component on vesting date (31 August 2016) at fair value	3 385	3 385	1 476	8 246
Restraint of trade award	–	–	–	–
Single total figure of remuneration	20 275	20 276	8 699	49 250
2016 forfeitable share scheme retention component	(949)	(949)	(503)	(2 401)
2013 forfeitable share scheme – vesting of retention component in the current year at fair value	2 257	2 257	984	5 498
Dividends on vested shares	275	275	120	670
Short-term incentive bonus of prior year paid in August 2016	9 165	9 165	2 831	21 161
Short-term incentive bonus accrued in May 2017 to be settled in August 2017	(7 808)	(7 808)	(2 412)	(18 028)
Total cash equivalent value remuneration received for the year ended 31 May 2017	23 215	23 216	9 719	56 150
Reconciliation to note 5.3 of the Group annual financial statements				
Remuneration as disclosed in terms of IFRS	15 941	15 942	6 720	38 603
Total cash equivalent value remuneration received for the year ended 31 May 2017	23 215	23 216	9 719	56 150
Difference to remuneration as disclosed in note 5.3	7 274	7 274	2 999	17 547
Reconciling items				
Short-term incentive bonus accrued in May 2016 and settled in August 2016	9 165	9 165	2 831	21 161
Short-term incentive bonus accrued in May 2017 to be settled in August 2017	(7 808)	(7 808)	(2 412)	(18 028)
Dividends on shares vested in the current year	275	275	120	670
2013 forfeitable share scheme that vested in the current year at fair value	5 642	5 642	2 460	13 744
2013 forfeitable share scheme – growth performance component on vesting date (31 August 2016) at fair value	3 385	3 385	1 476	8 246
2013 forfeitable share scheme – vesting of retention component in the current year at fair value	2 257	2 257	984	5 498
	7 274	7 274	2 999	17 547

Implementation report continued

Forfeitable share scheme – granted and unvested

	Issue date	Issue price R	Vesting date	Awards outstanding as at the beginning of the year
Forfeitable share scheme per Director				
For the year ended 31 May 2018				
BM Levy	3 September 2014	8.90	31 August 2017	283 339
BM Levy	1 September 2015	10.17	31 August 2018	262 834
BM Levy	18 October 2016	20.75	31 August 2019	137 194
BM Levy	1 September 2017	18.49	31 August 2020	–
				683 367
MS Levy	3 September 2014	8.90	31 August 2017	283 339
MS Levy	1 September 2015	10.17	31 August 2018	262 834
MS Levy	18 October 2016	20.75	31 August 2019	137 194
MS Levy	1 September 2017	18.49	31 August 2020	–
				683 367
DA Suntup	3 September 2014	8.90	31 August 2017	150 067
DA Suntup	1 September 2015	10.17	31 August 2018	139 207
DA Suntup	18 October 2016	20.75	31 August 2019	72 663
DA Suntup	1 September 2017	18.49	31 August 2020	–
				361 937

Awards include both the retention and performance instruments not yet vested.

* *The fair value is based on the closing price of R11.80 at 31 May 2018 and excludes performance criteria.*

Number of shares awarded	Awards forfeited during the year	Awards vested during the year	Awards# outstanding as at the end of the year	Fair value at grant date R'000	Fair value at* 31 May 2018 R'000
–	–	(283 339)	–	2 522	–
–	–	–	262 834	2 673	3 101
–	–	–	137 194	2 847	1 619
163 970	–	–	163 970	3 032	1 935
163 970	–	(283 339)	563 998	11 073	6 655
–	–	(283 339)	–	2 522	–
–	–	–	262 834	2 673	3 101
–	–	–	137 194	2 847	1 619
163 970	–	–	163 970	3 032	1 935
163 970	–	(283 339)	563 998	11 073	6 655
–	–	(150 067)	–	1 336	–
–	–	–	139 207	1 416	1 643
–	–	–	72 663	1 508	857
86 845	–	–	86 845	1 606	1 025
86 845	–	(150 067)	298 715	5 865	3 525

Implementation report continued

Short-term incentive bonus

For the 2018 financial year, the Group did not achieve the levels required in terms of its predetermined targets for growth in core headline earnings per share. As a result thereof, as well as the Executive Directors electing to forfeit bonuses for the non-financial targets no short-term incentive bonuses were paid to them.

Long-term incentive plan

The long-term incentive plan related to the allocation of shares in 2014, which vested on 31 August 2017. The financial measurement was for the period 1 June 2014 to 31 May 2017.

The retention criteria of 40% was met.

Growth in core headline earnings per share over the three-year period equated to 60%. Growth in CPI over the three-year period accumulated to 16.22%, which after inclusion of the maximum growth target of 25%, equated to 41.22%. As the actual growth amounted to 60%, the resultant allocation of 50% was met.

In respect of growth in shareholder returns, the weighted average price per share at commencement of the allocation in September 2014 was R8.17. The required compounded growth of 10% per annum over the vesting period as at 31 August 2017 equated to a targeted share price of R11.81 inclusive of dividends paid totalling R0.94. The qualifying target equated to R10.87 net of dividends. The market price at vesting date was R18.49, thereby exceeding the minimum target requirement.

In line with the criteria being met in all respects, vesting of the 2014 share scheme allocations fell due on 31 August 2017.

Outperformance bonus

For the year ended 31 May 2018, the members of the Executive Committee did not qualify for an outperformance bonus due to the decline in the share price. The share price as at 31 May 2017 was R15.70 and at 31 May 2018 R11.80.

Compliance with policy

The Remuneration and Nomination Committee is satisfied that the Remuneration and Reward Policy has been complied with for the year under review in so far as Executive Management are concerned. Regarding the RNC discretionary rights, the terms of the policy were modified, relating to the awarding of STIs to Senior Management.

Performance metric	Target	Actual performance	Weighting	Executive Directors R'000
Short-term incentive bonus				
Financial target				
Group core headline earnings per share growth	**Greater/equal to CPI + 10% = 14.38%**	4%	80%	–
Non-financial targets	**Varies across the Group**	Varies across the Group	20%	–
Total				–
Long-term incentive plan (2014 forfeitable share scheme vested in August 2017)				
Retention	**3 years**		40%	5 302
Growth in core HEPS	**25% + (cumulative CPI over 3 years) = 41.22%**	60%	50%	6 626
Shareholder returns	**R11.81 market price per share**	R18.49 market price per share	10%	1 325
Total vesting related to performance conditions (excluding retention portion) included in 2018 total single figure of remuneration				7 951
Outperformance bonus				
Annual growth in the share price	**R18.84 market price per share**	R11.80 market price per share	0%	–

Non-Executive Directors' remuneration

	Total R'000
Non-Executive Directors	
LM Nestadt	1 840
K Ellerine	570
G Harlow	1 615
J Mthimunye	980
JS Vilakazi	705
P Mahanyele	780
	6 490

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

	Current fee 2018 R	Proposed fee 2019 R
Services as Directors		
– Chairman of the Board (per annum)	**1 700 000**	1 802 000
– Board members (per annum)	**375 000**	397 500
Audit, Risk and Compliance Committee		
– Chairman (per annum)	**340 000**	360 400
– Member (per annum)	**210 000**	222 600
Remuneration and Nomination Committee		
– Chairman Remuneration Committee (per annum)	**200 000**	212 000
– Chairman Nomination Committee (per annum)	**140 000**	148 400
– Member (per annum)	**120 000**	127 200
Investment Committee		
– Chairman (per annum)	**200 000**	212 000
– Member (per annum)	**120 000**	127 200
Transformation, Social and Ethics Committee		
– Chairman (per annum)	**120 000**	127 200
– Member (per annum)	**75 000**	79 500
Ad hoc Committee		
– Chairman (per meeting)	**45 000**	47 700
– Member (per meeting)	**27 000**	28 620

GD Harlow
Chairman

28 September 2018

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Prominent notice

These annual financial statements have been audited by our external auditor PricewaterhouseCoopers Inc. in compliance with the applicable requirements of the Companies Act, No 71 of 2008. Dean Suntup, Financial Director, supervised the preparation of the annual financial statements.

DA Suntup CA(SA)
Financial Director

Statement of Directors' responsibility

For the year ended 31 May 2018

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

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

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

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

In addition, the Directors are responsible for the Group's system of internal financial control. These are designed to provide reasonable, but not absolute, assurance as to the reliability of the financial statements, and to adequately safeguard, verify and maintain accountability of the assets, and to prevent and detect misstatement and loss. Nothing has come to the attention of the Directors to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

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

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

Approval of the financial statements

The financial statements were produced and approved by the Board of Directors on 21 August 2018 and are signed on its behalf by:

LM Nestadt
Non-executive Chairman

DA Suntup
Financial Director

BM Levy
Joint Chief Executive Officer

MS Levy
Joint Chief Executive Officer

Declaration by the Company Secretary

For the year ended 31 May 2018

In terms of section 88(2)(e) of the Companies Act, No 71 of 2008 (the Act), I confirm that for the year ended 31 May 2018, Blue Label Telecoms Limited has lodged with the Companies and Intellectual Property Commission all such returns and notices as are required of a public company in terms of the Act and that all such returns and notices are true, correct and up to date.

J van Eden
Group Company Secretary
Sandton

21 August 2018

Directors' report

The Directors have pleasure in presenting the Group annual financial statements of Blue Label Telecoms Limited (Blue Label Telecoms or the Company) and its subsidiary, associate and joint venture companies (the Group) for the year ended 31 May 2018.

Principal activities and strategy

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

Financial results

The Group recorded a net profit after tax attributable to equity holders for the year ended 31 May 2018 of R994 million (2017: R781 million). Full details of the financial position and results of the Group and its segments are set out in the Group annual financial statements. The Group annual financial statements for the year ended 31 May 2018 were approved by the Board and signed on its behalf on 21 August 2018.

Going concern

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

Acquisitions

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

On the same date, TPC concluded an agreement to purchase 100% of the issued share capital in 3G Mobile from its shareholders for a purchase consideration of R1.9 billion. The acquisition has been structured in two stages, whereby 47.37% of the issued share capital was initially acquired for a purchase consideration of R0.9 billion. Of this amount, 16 666 666 ordinary shares were issued to the vendors at R16.97 per share, equating to R283 million. The balance of R650 million (R612 million plus accrued interest) was settled in February 2018. This has been accounted for as an associate from this date until 6 December 2017.

Subsequently, the remaining 52.63% of the issued share capital of 3G Mobile was acquired for a further R1 billion. From 6 December 2017 this investment is accounted for as a subsidiary. Refer to note 2.1 and 2.5 for further details.

On 2 January 2018 BLT acquired 60% of the issued share capital of Airvantage Proprietary Limited (Airvantage) for a purchase consideration of R151 million. Refer to note 2.5 for further details.

Share capital

Full details of the authorised, issued and unissued capital of the Company at 31 May 2018 are contained in note 6 of the Group annual financial statements. Total shares issued during the period amounted to 271 999 999 (2017: nil). This is made up as follows:

Date	Shares issued	Transaction rationale
2 August 2017	183 333 333	To fund R2.75 billion of Cell C acquisition
2 August 2017	16 666 666	Issued to 3G Mobile shareholders as partial settlement for the first acquisition (1st tranche)
26 February 2018	72 000 000	To partially fund the acquisition of 3G (1st and 2nd tranche)

Dividends

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

Share buyback

The Board has approved a share buyback programme.

Subsequent events

On 30 June 2018 The Prepaid Company subscribed for 48% of Glocell Distribution Proprietary Limited (Glocell Distribution), a newly formed company that acquired the business operations of Glocell Proprietary Limited (Glocell). The business operations include the vending of airtime and other value added services to a long-established client base. The cost of subscription for the shares amounted to R173.4 million by way of capitalising debt owing by Glocell to The Prepaid Company.

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 on repayment, The Prepaid Company has undertaken to purchase such inventory from the consortium on a piecemeal basis over a specified period that has been agreed upon. Any shortfalls of this purchase would be in lieu of purchases made from Cell C within that period. The payment terms as between TPC and Cell C on the normal Cell C trading account would be extended by 120 days, ensuring that TPC will not be at any risk of having to purchase airtime in excess of its monthly requirements.

On 1 August 2018 BLT acquired 60% of the issued share capital of AV Technology Limited for a purchase consideration of USD6.4 million (R84.2 million). The purchase agreement contains an option arrangement which may result in BLT acquiring the remaining 40% of the entity.

Post-year-end the Board of Directors approved a share buyback programme.

Directorate

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

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

Directors' interests

The individual interests declared by Directors in the Company's share capital as at 31 May 2018, held directly or indirectly, were as follows:

	Nature of interest			
	Direct beneficial		Indirect beneficial	
Director/officer	**2018**	2017	**2018**	2017
BM Levy	**63 438 386**	63 155 047	**21 272 778**	21 272 778
MS Levy	**56 030 978**	55 747 639	**21 272 777**	21 272 777
KM Ellerine	**—**	—	**4 886 666**	266 667
GD Harlow	**—**	—	**4 414 815**	2 414 815
P Mahanyele	**—**	—	**—**	—
JS Mthimunye	**50 000**	30 000	**20 000**	5 000
LM Nestadt	**—**	—	**8 204 674**	8 204 674
DA Suntup	**808 612**	658 545	**3 877 778**	3 877 778
JS Vilakazi	**—**	—	**—**	—

There has been no movement in the disclosed interests during the period 31 May 2018 to the date of signature of this report.

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

	Number of shares	
Director/officer	**2018**	2017
Beneficial	**184 277 464**	176 905 720

The beneficial interest held by Directors and officers of the Company constitutes 19.59% (2017: 26.48%) of the issued share capital of the Company.

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

Resolutions

On 22 January 2018 the Company passed and filed with the Companies and Intellectual Property Commission the following special resolutions:

- approving the remuneration of non-executive directors;
- granting a general authority to repurchase the Company's shares;
- conversion of ordinary share from par value to no par value;
- increase in authorised share capital;
- issue of securities; and
- approving fraction of shares amendment of memorandum of incorporation.

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

Company Secretary

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

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

American depository receipt facility

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

Auditors

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

Larry Nestadt
Chairman

21 August 2018

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

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Blue Label Telecoms Limited and its subsidiaries (together the Group) as at 31 May 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

What we have audited

Blue Label Telecoms Limited's consolidated financial statements set out on pages 106 to 192 comprise:

- the Group statement of financial position as at 31 May 2018;
- the Group income statement for the year then ended;
- the Group statement of comprehensive income for the year then ended;
- the Group statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

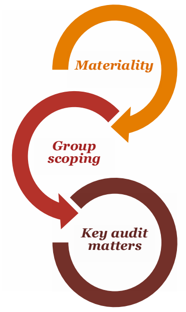
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

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

Our audit approach
Overview



Overall group materiality

R80 400 000 which represents 0.3% of total revenue.

Group audit scope

We identified fifteen components, which in our view, required an audit of their complete financial information due to their financial significance and risk characteristics.

Key audit matters

1. Impairment assessment of goodwill arising from business combinations and impairment assessment of investment in Blue Label Mexico S.A. de C.V. (Blue Label Mexico).
2. Fair value assessment of investment in Oxigen Services India Private Limited (OSI).
3. Accounting for equity accounted investment in Cell C Limited.

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

Materiality
The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

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

Overall Group materiality	R80 400 000
How we determined it	0.3% of total revenue
Rationale for the materiality benchmark applied	We chose total revenue as the benchmark because, in our view it is the benchmark against which the performance of the Group can be consistently measured by users, as it is an indicator of market share which is considered to be the key objective and focus of the Group's business model and users. We chose 0.3% based on our professional judgement and after consideration of the range of quantitative materiality thresholds that we would typically apply when using revenue to compute materiality. The considerations included the intended users and distribution of the financial statements, the financial covenants held over the Group's debt as well as the inherent risk of the entity.

How we tailored our Group audit scope

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

The Group is made up of five segments, African distribution, International distribution, Mobile, Solutions and Corporate which operate across 10 countries and four continents. The Group's main operating subsidiaries and associates are located in South Africa. In establishing the overall audit approach to the Group audit, we determined the type of work that needed to be performed at the local operations by ourselves, as the Group engagement team, or component auditors from other PwC network firms and firms external to PwC operating under our instruction. The Group's operations vary in size. Fifteen components were identified to be in full scope for Group audit reporting purposes which in our view, required an audit of their complete financial information, due to their financial significance and risk characteristics.

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

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

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

Analytical procedures were performed over all components not in scope to assess whether any risks exist that would require additional audit procedures. No such risks were identified.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of goodwill arising from business combinations and impairment assessment of investment in Blue Label Mexico S.A. de C.V. (Blue Label Mexico) The Group has entered into various business combinations over the last couple of years which resulted in significant goodwill being recognised. The goodwill recognised in these business combinations relates mainly to expected synergies and the ability to introduce new service offerings. Goodwill comprises 7% of the total consolidated assets in the consolidated statement of financial position. Goodwill is tested annually for impairment or whenever there is an impairment indicator identified by management. Management's annual goodwill impairment assessments were identified as a matter of most significance to our audit because of the quantum of goodwill as at 31 May 2018 and the significant judgement and estimates involved in determining the terminal growth rate, discount rate and forecast cash flows as well as the future market or economic conditions the various businesses are facing within the Group. For the year ended 31 May 2018 management performed an impairment assessment over the goodwill balance by performing the following: • assessing the recoverable amount through determination of a value-in-use amount and comparing this to the carrying amount, and if an impairment was identified, performing a fair value less costs to sell calculation to determine the highest recoverable amount; • the value-in-use for each cash-generating unit (CGU) was calculated using a discounted cash flow model; and • performing a sensitivity analysis over the value-in-use calculations, by varying the assumptions used (growth rates, terminal growth rate and the weighted average cost of capital i.e. discount rate) to assess the impact on the value in use.	For material goodwill balances and the impairment assessment in Blue Label Mexico our audit procedures included the following: • we evaluated management's assessment of the identification of the Group's CGUs and obtained the relevant impairment assessments performed by management for these CGUs; • we assessed the reasonability of management's cash flow forecasts through discussions with management regarding the process to develop the budgets and forecasts as well as the assumptions utilised. We also compared the prior year budgets to the current year actual results to understand the efficacy of management's budgeting process and found that the budgeting inputs were reasonable. • we evaluated whether the assumptions used, such as working capital and capital expenditure, had been determined and applied consistently across the CGUs; • we agreed the budgets to the latest board approved budgets. The board-approved budgets cover a period of five years and the forecasts for the purpose of the value-in-use calculations also covered a period of five years; • we assessed the mathematical accuracy of the valuations performed by management as well as the appropriateness of the methods used for the valuations and found no exceptions. We made use of our internal valuations experts to independently calculate discount rates taking into account independently obtained data such as the cost of debt, risk-free rates in the market, market risk premiums, country risk premium, specific risk premium, debt/equity ratios as well as the beta of comparable companies. This was compared to the discount rates used by management. We found the discount rates used by management to be within acceptable ranges of our independent calculations. The terminal growth rates were compared to forecast industry trends and to independent sources for similar operations.

Key audit matter	How our audit addressed the key audit matter
Refer to note 4.1 for details of management's impairment tests and assumptions. Under International Financial Reporting Standards (IFRS), the Group is required to test the recoverable amount of investments for impairment if there is an indicator of impairment. Management identified an impairment indicator regarding Blue Label Mexico and performed an impairment test as a result. Management's impairment assessment process relating to the investment in Blue Label Mexico is consistent with the process followed for goodwill as described above. The process is complex and highly judgemental and is based on a number of assumptions, estimates and judgement including the terminal growth rate, discount rate and forecast cash flows, which are affected by expected future market or economic conditions, particularly those in Mexico. Changes in these assumptions may lead to an impairment charge being recognised for the investment in Blue Label Mexico. The impairment test of Blue Label Mexico was a matter of most significance to our audit because of the quantum of the investment in Blue Label Mexico and the complexity involved in the impairment assessment. Refer to note 2.1 for details of management's impairment test and assumptions.	We further made use of our internal valuations experts to assess the approaches adopted by management in the valuation models for both goodwill and the investment in Blue Label Mexico and found that the approaches were in line with market practice and the applicable requirements of International Accounting Standard (IAS) 36: *Impairment of Assets.* We performed independent sensitivity calculations on the impairment assessments, to determine the degree by which the key assumptions needed to change in order to trigger an impairment. We discussed these with management and based on the evidence obtained we accepted management's conclusion that the key assumptions, estimates and judgements applied in the models were reasonable.

Key audit matter	How our audit addressed the key audit matter
Fair value assessment of investment in Oxigen Services India Private Limited (OSI) The Group accounts for the investment in OSI at fair value as per the exemption available in IAS 28: *Investments in Associates and Joint Ventures* and values the investment in accordance with IAS 39: *Financial Instruments: Recognition and Measurement* at fair value with changes in fair value recognised in profit or loss. The Group determines the fair value of the investment in OSI through the use of an independent third-party professional valuer. The determination of the fair value of OSI was considered to be a matter of most significance to our audit due to the significant judgements made by management regarding the inputs utilised in the valuation, including the terminal growth rate, discount rate, working capital and capital expenditure and forecast cash flows included in the analyses used to perform the valuation. Refer to note 2.2 for details of fair value assumptions.	Our audit procedures included: • We assessed management's process to determine cash flow budgets and forecasts. • We compared the current year actual results to the approved budget for the year to determine whether any assumptions included in the forecasts were unreasonable. We found that the assumptions used by management in performing the valuation, including the working capital and capital expenditure, were determined appropriately and were consistently applied. • We made use of our PwC valuation experts in India, as well as PwC South Africa, to assist us in performing our procedures. • We assessed whether the approach adopted by the independent valuations expert in the valuation models was in line with market practice and the applicable requirements of IFRS 13 – *Fair Value Measurement*. We found that the approach was acceptable. • With the assistance of our valuation experts we independently calculated a range of acceptable fair values by using management's cash flows and our own valuation model and inputs (as discussed below). We found management's valuation to be within our independently determined acceptable range of values. • We tested the mathematical accuracy of management's valuation model by performing a recalculation. • We independently calculated the discount rate, taking into account independently obtained data, such as the cost of debt, risk free rates in the market, market risk premiums, country risk premium, specific risk premium, debt/equity ratios as well as the beta of comparable companies. We found that the discount rate used by management was within an acceptable range of our calculations. • The terminal growth rate was compared to forecast industry trends and to independent sources for similar operations. The growth rate was found to be within an acceptable range of our independent calculated rates. • We performed a sensitivity analysis over the assumptions, to analyse the possible impact on the valuation by using other growth rates and discount rates which were within a reasonably foreseeable range. We discussed these with management and based on the evidence obtained we accepted management's conclusion that the key assumptions applied in the models were reasonable. Based on the procedures performed, we found the estimates and judgement used in the fair value assessment described above to be supported by the available evidence.

Key audit matter	How our audit addressed the key audit matter
Accounting for equity accounted investment in Cell C Limited The Group acquired a 45% interest in Cell C Limited on 2 August 2017 for a purchase consideration of R5.5 billion and accounted for the investment in Cell C Limited as an associate in terms of IAS 28: *Investments in Associates and Joint Ventures*. Management performed a purchase price allocation with the assistance from a third-party valuation expert in order to value the intangible assets acquired as part of the acquisition. These included the brand and the spectrum licence. The year-end of Cell C Limited is December which is different to the year-end of the Group, being May. The auditors of Cell C Limited were requested by management to perform a special purpose audit of Cell C Limited for the 10 months since acquisition, 2 August 2017 up to 31 May 2018. Accounting for the equity accounted investment in Cell C Limited was a matter of most significance to our audit due to the significant cost of the investment, the magnitude of the contribution of the associate investment to the consolidated results of the Group, the complexity inherent to Cell C Limited's revenue recognition and the management judgement that was required regarding the following: • the valuation of the derivative financial instruments entered into as part of the acquisition; • the recognition of a deferred tax asset subsequent to the acquisition; and • the purchase price allocation performed which resulted in the identification of intangible assets and goodwill.	We inspected the acquisition contracts to assess the accounting treatment and classification of the investment as an associate. We also inspected supporting documentation regarding the purchase consideration paid and share certificates of the shares held in Cell C Limited to assess the accuracy of the cost of the investment and number and class of shares acquired. We obtained the purchase price allocation performed by management and, with the assistance of our valuation experts, assessed the reasonability of the valuation method used as well as the assumptions and estimates used by management in determining the valuation for purposes of the purchase price allocation. We also determined whether management's valuation was in line with the requirements of IFRS. We re-performed the valuation of the intangible assets using our own independent inputs to determine the reasonability of management's valuation thereof. In performing this assessment, we evaluated the weighted average cost of capital rate and the inputs used in arriving at the rate, the taxation rates, discount rates, minority discounts and the other relevant inputs used by management. We further assessed the useful lives and forecasts used in the valuation calculation for reasonability through obtaining an understanding of the timeframe that the identified intangible assets will be used by the entity. As a reasonableness test of the forecast, we performed look back procedures and evaluated the reasonability of the growth rates and cash flows used in management's forecasts. We evaluated Cell C Limited's revenue accounting policies in terms of IFRS and assessed their alignment with the Group's accounting policies. The design of the relevant IT systems and related internal controls applicable to the revenue and billing systems were evaluated with the assistance of our IT specialists.

Key audit matter	How our audit addressed the key audit matter
These intangible assets are not recorded separately in the consolidated financial statements as the investment is disclosed on a single line item as Investments in and loans to associates and joint ventures (refer to note 2.1). However, the fair values identified form the basis for additional amortisation and similar adjustments that will be reflected in the Group's share of the results in subsequent years. Refer to note 2.1 for details of the equity accounted results and note 3.1.3 for details of the derivative financial instruments.	We evaluated Cell C Limited's recognition of the deferred tax asset subsequent to acquisition against the requirements of IAS 12: *Income Taxes*. We corroborated the reasons provided by management regarding the recognition of the deferred tax asset only subsequent to the acquisition date. • The recognition was dependent on probable future taxable profits being available against which the deductible temporary differences can be utilised. We assessed whether the forecast cash flows, which were adjusted as a result of the recapitalisation of Cell C Limited, were reasonable based on management's future plans for Cell C Limited and whether the updated forecast cash flows only became probable as a result of events that occurred after the acquisition of the Group's interest in Cell C Limited. • The cash flow forecast used in the determination was approved by the Cell C Limited board and incorporated Cell C Limited management's estimates and judgements. We evaluated and obtained an understanding of Cell C Limited management's budgeting and forecasting process which formed the basis to assess the availability of future taxable profits. We further assessed the current year's actual results against budget to determine the efficacy of Cell C Limited management's budgeting process. We performed the following procedures on the derivative financial instruments entered into and related to the acquisition of Cell C Limited: • We evaluated management's classification of the instruments based on inspection of the agreements. • We made use of our internal valuation experts to assess the inputs and methodologies used by management in valuing the derivative financial instruments. We found that the valuation performed for the derivative financial instruments was within an acceptable range of values. For the equity accounted earnings: • We tested the Group's share of equity accounted earnings related to Cell C Limited by recalculating the Group's share of earnings based on the audited 10 months reporting pack, adjusted for certain differences in accounting policies. We further evaluated the disclosure in the Group's annual financial statements for compliance with IFRS. • We independently assessed the accounting policies of the associate to that of the Group for consistency with the Group accounting policies and compliance with IFRS. No significant differences were noted based on the procedures performed as described above.

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

continued

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual consolidated financial statements of Blue Label Telecoms Limited for the year ended 31 May 2018 and the annual financial statements of Blue Label Telecoms Limited for the year ended 31 May 2018, which includes the Directors' report, the Audit, Risk and Compliance Committee's report and the Declaration by the Company Secretary as required by the Companies Act of South Africa, which we obtained prior to the date of this auditor's report, and the other sections of the Blue Label Telecoms integrated annual report 2018, which is expected to be made available to us after that date. Other information does not include the consolidated and separate financial statements and our auditor's reports thereon.

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

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

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

Responsibilities of the Directors for the consolidated financial statements

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going-concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to

draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that PricewaterhouseCoopers Inc. has been the auditor of Blue Label Telecoms Limited for 14 years.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: D Storm
Registered Auditor
Johannesburg

21 August 2018

Group income statement

For the year ended 31 May 2018

	Notes	2018 R'000	Restated* 2017 R'000
Revenue	1.2	**26 800 265**	26 469 581
Other income		**81 704**	16 814
Changes in inventories of finished goods		**(24 518 173)**	(24 340 581)
Employee compensation and benefit expense	5.2	**(524 187)**	(452 985)
Depreciation, amortisation and impairment charges		**(242 604)**	(112 851)
Other expenses		**(499 456)**	(405 088)
Operating profit	1.3	**1 097 549**	1 174 890
Finance costs	1.4	**(306 636)**	(109 788)
Finance income	1.4	**195 298**	84 605
(Loss)/gain on associates and joint venture measured at fair value	2.2	**(173 645)**	160 200
Share of gains/(losses) from associates and joint ventures	2.1	**565 812**	(164 941)
Net profit before taxation		**1 378 378**	1 144 966
Taxation	7.1	**(331 069)**	(329 816)
Net profit for the year		**1 047 309**	815 150
Net profit for the year attributable to:			
Equity holders of the parent		**993 624**	781 254
Non-controlling interest		**53 685**	33 896
Earnings per share for profit attributable to:			
Equity holders (cents)			
– Basic	1.5	**116.12**	114.13
– Diluted	1.5	**108.10**	113.17

** As a result of the revised guidance in Circular 2/2017 the Group has restated its comparative financial information for a change in accounting policy. Refer to note 10.5 for details.*

Group statement of comprehensive income

For the year ended 31 May 2018

	2018 R'000	Restated 2017 R'000
Net profit for the year	**1 047 309**	815 150
Other comprehensive income:		
Items reclassified to profit or loss		
Foreign currency translation reserve reclassified to profit or loss*	**(3 097)**	—
Items that may be subsequently reclassified to profit or loss		
Foreign exchange loss on translation of associates and joint ventures*	**(15 873)**	(82 424)
Foreign exchange loss on translation of foreign operations*	**(3 869)**	(52)
Other comprehensive loss for the year, net of tax	**(22 839)**	(82 476)
Total comprehensive income for the year	**1 024 470**	732 674
Total comprehensive income for the year attributable to:		
Equity holders of the parent	**971 250**	700 685
Non-controlling interest	**53 220**	31 989

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

Group statement of financial position

As at 31 May 2018

	Notes	2018 R'000	Restated** 2017 R'000	Restated** 2016 R'000
Assets				
Non-current assets		**9 404 315**	2 198 757	2 275 161
Property, plant and equipment	4.3	**137 120**	111 599	100 434
Intangible assets	4.2	**1 076 871**	511 164	598 333
Goodwill	4.1	**1 036 243**	604 590	603 440
Investments in and loans to associates and joint ventures	2.1	**6 398 305**	315 833	910 567
Investments in and loans to venture capital associates and joint ventures	2.2	**277 835**	544 165	—
Loans receivable	3.1.1	**53 270**	36 851	5 910
Starter pack assets		**5 541**	5 346	6 099
Trade and other receivables	3.1.2	**373 907**	42 512	29 166
Deferred taxation assets	7.2	**45 223**	26 697	21 212
Current assets		**8 526 636**	6 498 626	5 037 786
Starter pack assets		**1 414**	1 365	1 576
Loans to associate	2.1	**1 029 626**	—	—
Inventories	4.4	**597 946**	2 180 121	1 658 860
Loans receivable	3.1.1	**207 799**	188 229	98 217
Trade and other receivables	3.1.2	**5 529 877**	2 766 110	2 686 019
Financial asset at fair value through profit and loss	3.3	**168 144**	—	—
Current tax assets		**43 942**	12 135	4 087
Cash and cash equivalents	3.1.3	**947 888**	1 350 666	589 027
Total assets		**17 930 951**	8 697 383	7 312 947
Equity and liabilities				
Capital and reserves		**9 506 642**	4 995 284	4 516 120
Share capital	6	**1**	*	*
Share premium		**7 910 529**	4 012 359	4 012 359
Treasury shares		**(65 683)**	(58 488)	(69 847)
Restructuring reserve		**(1 843 912)**	(1 843 912)	(1 843 912)
Foreign currency translation reserve		**76 841**	99 215	179 784
Non-distributable reserve		**7 821**	7 821	7 821
Transactions with non-controlling interest reserve		**(1 069 268)**	(975 302)	(965 861)
Equity compensation benefit reserve		**48 142**	46 420	42 039
Share-based payment reserve		**1 400**	—	—
Retained earnings		**4 283 854**	3 640 034	3 101 603
Total ordinary shareholders' equity		**9 349 725**	4 928 147	4 463 986
Non-controlling interest		**156 917**	67 137	52 134
Non-current liabilities		**1 745 790**	55 665	101 613
Deferred taxation liabilities	7.2	**229 100**	49 391	60 800
Borrowings	3.2.2	**1 514 140**	—	—
Trade and other payables	3.2.1	**2 550**	6 274	40 813
Current liabilities		**6 678 519**	3 646 434	2 695 214
Trade and other payables	3.2.1	**5 086 196**	3 537 505	2 613 591
Provisions	4.5	**39 628**	35 071	24 928
Financial liabilities at fair value through profit and loss	3.3	**45 360**	—	—
Current tax liabilities		**50 367**	55 832	40 608
Borrowings	3.2.2	**1 456 968**	18 026	16 087
Total equity and liabilities		**17 930 951**	8 697 383	7 312 947

* *Less than R1 000.*

** *As a result of the revised guidance in Circular 2/2017 the Group has restated its comparative financial information for a change in accounting policy. Refer to note 10.5 for details.*

Group statement of changes in equity

For the year ended 31 May 2018

	Notes	Share capital R'000	Share premium R'000	Treasury shares R'000	Retained earnings R'000
Balance as at 31 May 2016		*	4 012 359	(69 847)	3 105 050
Restatement due to change in accounting policy	10.5		—	—	(3 447)
Restated balance as at 31 May 2016**			4 012 359	(69 847)	3 101 603
Restated net profit for the year**		—	—	—	781 254
Other comprehensive income/(loss)		—	—	—	—
Restated total comprehensive income/(loss)**		—	—	—	781 254
Treasury shares purchased	6	—	—	(7 381)	—
Equity compensation benefit scheme shares vested		—	—	18 740	—
Equity compensation benefit movement		—	—	—	—
Transaction with non-controlling interest reserve movement		—	—	—	—
Non-controlling interest acquired		—	—	—	—
Dividends paid		—	—	—	(242 823)
Restated balance as at 31 May 2017**		*****	**4 012 359**	**(58 488)**	**3 640 034**
Net profit for the year		**—**	**—**	**—**	**993 624**
Other comprehensive income/(loss)		**—**	**—**	**—**	**—**
Total comprehensive income/(loss)		**—**	**—**	**—**	**993 624**
Treasury shares purchased	6	**—**	**—**	**(28 846)**	**—**
Shares issued		**1**	**3 932 833**	**—**	**—**
Transaction costs on shares issued		**—**	**(34 663)**	**—**	**—**
Equity compensation benefit scheme shares vested		**—**	**—**	**21 651**	**—**
Equity compensation benefit movement		**—**	**—**	**—**	**—**
Transaction with non-controlling interest reserve movement		**—**	**—**	**—**	**—**
B-BBEE transaction[4]		**—**	**—**	**—**	**—**
Non-controlling interest acquired		**—**	**—**	**—**	**—**
Non-controlling interest disposed of		**—**	**—**	**—**	**—**
Dividends paid		**—**	**—**	**—**	**(349 804)**
Balance as at 31 May 2018		**1**	**7 910 529**	**(65 683)**	**4 283 854**

* *Less than R1 000.*

** *As a result of the revised guidance in Circular 2/2017 the Group has restated its comparative financial information for a change in accounting policy. Refer to note 10.5 for details.*

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

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

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

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

[5] *This relates to the Group's movement in equity compensation benefit (refer to note 5.2)*

[6] *This relates to a put option that the Group has on the remaining 40% shareholding in Airvantage Proprietary Limited. Refer to note 3.2.1.*

	Restructuring reserve[1] R'000	Foreign currency translation reserve R'000	Non-distributable reserve[2] R'000	Transactions with non-controlling interest reserve[3] R'000	Share-based payment reserve[4] R'000	Equity compensation benefit reserve[5] R'000	Total ordinary shareholders' equity R'000	Non-controlling interest R'000	Total equity R'000
	(1 843 912)	179 784	7 821	(965 861)	—	42 039	4 467 433	52 134	4 519 567
	—	—	—	—	—	—	(3 447)	—	(3 447)
	(1 843 912)	179 784	7 821	(965 861)	—	42 039	4 463 986	52 134	4 516 120
	—	—	—		—	—	781 254	33 896	815 150
	—	(80 569)	—	—	—	—	(80 569)	(1 907)	(82 476)
	—	(80 569)	—		—	—	700 685	31 989	732 674
	—	—	—	—	—	—	(7 381)	—	(7 381)
	—	—	—	—	—	(18 486)	254	(254)	—
	—	—	—	—	—	22 867	22 867	550	23 417
	—	—	—	(9 441)	—	—	(9 441)	9 441	—
	—	—	—	—	—	—	—	65	65
	—	—	—	—	—	—	(242 823)	(26 788)	(269 611)
	(1 843 912)	**99 215**	**7 821**	**(975 302)**	**—**	**46 420**	**4 928 147**	**67 137**	**4 995 284**
	—	**—**	**—**	**—**	**—**	**—**	**993 624**	**53 685**	**1 047 309**
	—	**(22 374)**	**—**	**—**	**—**	**—**	**(22 374)**	**(465)**	**(22 839)**
	—	**(22 374)**	**—**	**—**	**—**	**—**	**971 250**	**53 220**	**1 024 470**
	—	**—**	**—**	**—**	**—**	**—**	**(28 846)**	**—**	**(28 846)**
	—	**—**	**—**	**—**	**—**	**—**	**3 932 834**	**—**	**3 932 834**
	—	**—**	**—**	**—**	**—**	**—**	**(34 663)**	**—**	**(34 663)**
	—	**—**	**—**	**—**	**—**	**(21 362)**	**289**	**(289)**	**—**
	—	**—**	**—**		**—**	**23 084**	**23 084**	**778**	**23 862**
	—	**—**	**—**	**(93 966)[6]**	**—**	**—**	**(93 966)**	**—**	**(93 966)**
	—	**—**	**—**	**—**	**1 400**	**—**	**1 400**	**—**	**1 400**
	—	**—**	**—**	**—**	**—**	**—**	**—**	**66 645**	**66 645**
	—	**—**	**—**	**—**	**—**	**—**	**—**	**(2 824)**	**(2 824)**
	—	**—**	**—**	**—**	**—**	**—**	**(349 804)**	**(27 750)**	**(377 554)**
	(1 843 912)	**76 841**	**7 821**	**(1 069 268)**	**1 400**	**48 142**	**9 349 725**	**156 917**	**9 506 642**

Group statement of cash flows

For the year ended 31 May 2018

	Notes	2018 R'000	2017 R'000
Cash flows from operating activities			
Cash received from customers		**23 588 810**	26 202 695
Cash paid to suppliers and employees		**(20 000 030)**	(24 448 704)
Cash generated by operations	1.6	**3 588 780**	1 753 991
Interest received		**154 952**	52 300
Interest paid		**(187 489)**	(105 518)
Taxation paid	7.3	**(368 099)**	(338 814)
Net cash generated from operating activities		**3 188 144**	1 361 959
Cash flows from investing activities			
Acquisition of intangible assets	4.2	**(31 183)**	(55 987)
Proceeds on disposal of intangible assets		**—**	47
Proceeds on disposal of property, plant and equipment		**6 486**	1 776
Acquisition of property, plant and equipment	4.3	**(71 640)**	(57 293)
Acquisition of subsidiary net of cash acquired	2.5	**(291 240)**	771
Acquisition of associate		**(6 124 127)**	(7 530)
Transaction costs on associates		**(55 131)**	—
Capital contribution to Oxigen Services India		**(25 076)**	(25 534)
Purchase of bond notes	3.3	**(117 037)**	—
Loan granted to Cell C		**(1 017 522)**	—
Loans advanced to associates and joint ventures		**(31 641)**	(22 224)
Loans repaid by associates and joint ventures		**—**	593
Dividend received from associate		**4 251**	—
Loans granted		**(54 981)**	(141 917)
Loans receivable repaid		**78 329**	24 649
Settlement of contingent consideration	3.2.1	**(27 867)**	(50 666)
Contingent proceeds received		**—**	12 839
Net cash utilised in investing activities		**(7 758 379)**	(320 476)
Cash flows from financing activities			
Interest-bearing borrowings raised	1.7	**935 442**	—
Non-interest-bearing borrowings repaid	1.7	**(58)**	(2 861)
Non-interest-bearing borrowings raised	1.7	**—**	58
Proceeds from shares issued	6	**3 650 000**	—
Transaction costs on share issue		**(12 424)**	—
Acquisition of treasury shares	6	**(28 846)**	(7 381)
Dividends paid to non-controlling interest		**(27 750)**	(26 788)
Dividends paid to equity holders of the parent		**(349 804)**	(242 823)
Net cash generated/(utilised) in financing activities		**4 166 560**	(279 795)
Net (decrease)/increase in cash and cash equivalents		**(403 675)**	761 688
Cash and cash equivalents at the beginning of the year		**1 350 666**	589 027
Exchange gains on cash and cash equivalents		**897**	(49)
Cash and cash equivalents at the end of the year	3.1.3	**947 888**	1 350 666

Index to the notes to the Group annual financial statements

For the year ended 31 May 2018

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

Notes to the Group annual financial statements

For the year ended 31 May 2018

1. Results of operations

1.1 Segmental summary

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

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

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

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

	Total		Africa Distribution	
	2018 R'000	Restated 2017 R'000	2018 R'000	Restated 2017 R'000
Total segment revenue	**33 633 266**	32 881 775	**32 897 392**	32 216 378
Internal revenue	**(6 833 001)**	(6 412 194)	**(6 652 186)**	(6 272 276)
Revenue	**26 800 265**	26 469 581	**26 245 206**	25 944 102
Segment result				
Operating profit/(loss) before depreciation, amortisation and impairment charges	**1 340 153**	1 287 741	**1 344 824**	1 344 714
Depreciation, amortisation and impairment charges	**(155 757)**	(112 851)	**(139 633)**	(92 554)
Impairment of associate loans	**(141 852)**	—	**—**	—
Surety receivable recognised	**55 005**	—	**—**	—
Finance costs	**(306 636)**	(109 788)	**(300 042)**	(104 650)
Finance income	**195 298**	84 605	**161 937**	53 797
Gain on associate and joint venture measured at fair value	**(173 645)**	160 200	**—**	—
Share of profits/(losses) from associates and joint ventures	**565 812**	(164 941)	**583 122**	(5 406)
Taxation	**(331 069)**	(329 816)	**(292 860)**	(300 819)
Net profit/(loss) for the year	**1 047 309**	815 150	**1 357 348**	895 082
Reconciliation of net profit for the year to core headline earnings for the year				
Net profit/(loss) for the year	**1 047 309**	815 150	**1 357 348**	895 082
Amortisation of intangibles raised through business combinations net of tax	**48 126**	14 833	**44 080**	9 775
Core net profit/(loss) for the year*	**1 095 435**	829 983	**1 401 428**	904 857
Headline earnings adjustment before non-controlling interest	**(5 966)**	361	**(772)**	21
Core headline earnings for the year*	**1 089 469**	830 344	**1 400 656**	904 878
Core headline earnings for the year attributable to:				
Equity holders of parent	**1 032 016**	795 685	**1 384 739**	887 417
Non-controlling interest	**57 453**	34 659	**15 917**	17 461
Non-cash items				
Discounting of receivables	**3 472**	5 480	**3 472**	5 480
Discounting of payables	**(140 023)**	(4 270)	**(136 042)**	(4 270)
The segment assets and liabilities at 31 May are as follows:				
Assets excluding investments in and loans to associates and joint ventures	**10 225 185**	7 837 385	**9 450 957**	7 120 695
Investments in and loans to associates and joint ventures	**7 427 931**	315 833	**7 220 632**	87 945
Investments in and loans to venture capital associates and joint venture	**277 835**	544 165	**—**	—
Total assets	**17 930 951**	8 697 383	**16 671 589**	7 208 640
Additions to non-current assets				
Property, plant and equipment	**80 264**	57 655	**68 691**	51 074
Intangible assets and goodwill	**1 138 707**	57 137	**1 134 090**	52 138
Investment in associates	**6 444 778**	21 306	**6 444 778**	21 306
Total liabilities	**(8 424 309)**	(3 702 099)	**(8 125 783)**	(3 462 647)

The Company is domiciled in the Republic of South Africa. The result of its revenue from external customers in South Africa is R26.5 billion (2017: R26.3 billion), and the total revenue from external customers from other countries is R334 million (2017: R18 million).

The total non-current assets other than financial instruments and deferred tax assets located in South Africa is R8.9 billion (2017: R1.4 billion), and the total non-current assets located in other countries is R469 million (2017: R721 million).

The Africa Distribution segment includes revenues of R6.2 billion, R5.8 billion and R4.0 billion earned from three external customers.

1. Results of operations continued

1.1 Segmental summary continued

At 31 May 2018, the Group is managed on the basis of five main business segments:

- Africa Distribution, which includes the distribution of prepaid airtime, starter packs and electricity of the South African network operators and utility suppliers, and the distribution of handsets, tablets and other devices within South Africa and certain African countries.
- International, which includes distribution of prepaid airtime in Mexico and the venture capital investment of Oxigen Services India (refer to note 2.2).
- Mobile, which includes the provision of a complete mobile transactional ecosystem and services provisioning platform delivering mobile-centric products and services through any mobile channel, including location-based and WASP services, and music and digital content provision.
- Solutions, which includes marketing of cellular and financial products and services through outbound telemarketing and other channels, provides inbound customer care and technical support, and markets data and analytics services.
- Corporate, which performs the head office administration function.

International		Mobile		Solutions		Corporate	
2018 R'000	2017 R'000	2018 R'000	2017 R'000	2018 R'000	2017 R'000	2018 R'000	2017 R'000
—	—	370 358	361 754	196 762	178 286	168 754	125 357
—	—	(10 388)	(13 896)	(1 673)	(665)	(168 754)	(125 357)
—	—	359 970	347 858	195 089	177 621	—	—
(2 903)	(31 792)	101 883	99 101	42 838	34 020	(146 489)	(158 302)
—	—	(15 050)	(14 866)	(383)	(657)	(691)	(4 774)
(70 926)	—	—	—	—	—	(70 926)	—
55 005	—	—	—	—	—	—	—
—	(507)	(333)	(1 105)	(1)	(1)	(6 260)	(3 525)
15 224	13 285	5 831	5 523	950	1 018	11 356	10 982
(173 645)	160 200	—	—	—	—	—	—
(21 498)	(162 218)	(391)	2 228	4 579	455	—	—
(2 199)	1 953	(25 909)	(25 066)	(11 648)	(11 361)	1 547	5 477
(200 942)	(19 079)	66 031	65 815	36 335	23 474	(211 463)	(150 142)
(200 942)	(19 079)	66 031	65 815	36 335	23 474	(211 463)	(150 142)
1 549	1 859	2 497	3 199	—	—	—	—
(199 393)	(17 220)	68 528	69 014	36 335	23 474	(211 463)	(150 142)
(5 164)	339	130	(38)	(22)	—	(138)	39
(204 557)	(16 881)	68 658	68 976	36 313	23 474	(211 601)	(150 103)
(230 615)	(16 874)	59 679	56 289	29 814	18 956	(211 601)	(150 103)
26 058	(7)	8 979	12 687	6 499	4 518	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	(3 981)	—
100 513	22 959	515 542	545 379	124 858	137 834	33 315	10 518
139 697	176 406	45 788	48 216	21 814	3 266	—	—
277 835	544 165	—	—	—	—	—	—
518 045	743 530	561 330	593 595	146 672	141 100	33 315	10 518
126	—	8 245	4 494	268	38	2 934	2 049
—	—	4 603	4 983	—	—	14	16
—	—	—	—	—	—	—	—
(17 858)	(26 155)	(136 930)	(119 998)	(6 337)	(11 281)	(137 401)	(82 018)

*** Core net profit and core headline earnings**

Core net profit and core headline earnings are non-IFRS measures used by the Group in evaluating the Group's performance. These supplement the IFRS measures. Core net profit is calculated by adjusting net profit for the year with the amortisation of intangible assets net of deferred taxation and non-controlling interests that arise as a consequence of the purchase price allocations completed in terms of IFRS 3 – *Business Combinations*. Core headline earnings is calculated by adjusting core net profit with the headline earnings adjustments required by SAICA circular 4/2018.

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

1. Results of operations continued

1.2 Revenue

Revenue recognition

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

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

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

The main categories of revenue are as follows:

(a) Prepaid airtime, data and related revenue

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

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

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

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

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

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

(b) Postpaid airtime, data and related revenue

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

(c) Prepaid and postpaid SIM cards

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

1. Results of operations continued

1.2 Revenue continued

Revenue recognition continued

(d) Sales of services

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

(e) Electricity commission

The Group sells prepaid electricity to customers on behalf of the utility suppliers. Commissions on the sale of electricity are recognised by the Group when the end customer purchases the electricity voucher, as should the end user choose not to redeem their voucher the Group will still realise the economic benefit of the sale. Commissions are recorded based on agreed rates per the contracts. For this category of revenue the Group acts as an agent.

(f) Sales of handsets, tablets and other devices

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

(g) Finance revenue

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

Critical accounting estimates and assumptions

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

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

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

	2018 R'000	Restated 2017 R'000
Prepaid airtime, data and related revenue	**22 968 967**	24 451 540
Postpaid airtime, data and related revenue	**110 535**	90 602
Prepaid and postpaid SIM cards	**889 001**	628 976
Services	**629 667**	594 731
Electricity commission	**299 850**	270 604
Handsets, tablets and other devices	**1 586 817**	333 096
Finance revenue	**171 628**	—
Other revenue*	**143 800**	100 032
	26 800 265	26 469 581

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

1. Results of operations continued

1.3 Operating profit

	2018 R'000	2017 R'000
The following has been charged/(credited) in arriving at operating profit:		
Acquisition-related costs	**6 041**	23 003
Advertising and promotional expenses	**27 426**	46 892
Amortisation of intangible assets**	**138 972**	143 109
Audit fees – services as auditors	**22 018**	15 389
Audit fees – other	**2 816**	2 359
Consulting fees	**48 467**	24 447
Contingent purchase price release* (refer to note 3.2.1)	**(1 390)**	(10 210)
Depreciation	**46 144**	44 684
Fair value gain on financial instruments*	**(51 001)**	—
Fair value loss on financial instruments	**45 360**	—
Finance costs incurred in generating finance revenue	**71 656**	—
Foreign exchange loss (refer to note 3.2.2)	**19 648**	52 151
Impairment of loans	**217**	4 001
Impairment of 2DFine loan	**141 852**	—
Surety receivable recognised	**(55 005)**	—
Impairment of trade receivables	**7 443**	15 515
Impairment of trade receivables – provision	**18 790**	5 170
Impairment of property, plant and equipment	**3 800**	—
Impairment of intangible assets	**338**	—
Impairment of inventory	**5 489**	1 178
IT infrastructure costs and computer-related costs	**34 497**	32 932
Legal fees	**923**	5 971
Loan release***	**(11 349)**	—
Profit on disposal of subsidiary	**(2 824)**	—
Management fees paid	**5 326**	6 339
Motor vehicle expenses	**11 623**	10 935
Operating lease rentals – premises[(a)]	**40 999**	34 535
Overseas travel	**5 593**	5 495
(Profit)/loss on disposal of property, plant and equipment	**(1 784)**	30

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

** *Included in the amortisation charge is an amount of R33.5 million (2017: R74.9 million) in respect of the purchased starter pack bases and postpaid bases, which is charged to the changes in inventories of finished goods line in the income statement.*

*** *This loan release relates to loan forgivenesses received on the liquidation of Africa Prepaid Services Nigeria Limited. This is included in other income.*

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

1. Results of operations continued

1.4 Finance costs and finance income

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

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

	2018 R'000	Restated 2017 R'000
Finance costs		
– Bank	**170**	29
– Loans and facilities	**162 647**	97 474
– Unwinding of contingent purchase price	**591**	4 621
– Other	**3 205**	3 394
– Discounting of payables*	**140 023**	4 270
	306 636	109 788
Finance income		
– Bank	**(33 006)**	(23 557)
– Loans	**(23 331)**	(22 444)
– Related-party loans (refer to note 8)	**(123 940)**	(31 237)
– Other	**(11 549)**	(1 887)
– Discounting of receivables*	**(3 472)**	(5 480)
	(195 298)	(84 605)
Net finance costs	**111 338**	25 183

* *The discounting of payables and receivables relates mainly to the discounting of deferred consideration payable and funding agreements provided to customers that constitute a financing arrangement and accounted for as such.*

1.5 Earnings per share

(a) Basic

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

(b) Headline

Headline earnings are calculated by applying the principles contained in Circular 4/2018 as issued by the South African Institute of Chartered Accountants, as required by JSE Limited.

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

(c) Diluted – basic and headline

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

(d) Core headline

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

1. Results of operations continued

1.5 Earnings per share continued

(a) Basic

	2018	Restated 2017
Profit attributable to equity holders of the parent (R'000)	**993 624**	781 254
Weighted average number of ordinary shares in issue (thousands)	**855 687**	684 508
Basic earnings per share (cents per share)	**116.12**	114.13

(b) Headline

	Profit before tax and non-controlling interest R'000	Tax R'000	Non-controlling interest R'000	Headline earnings R'000
2018				
Profit attributable to equity holders of the parent	**1 378 378**	**(331 069)**	**(53 685)**	**993 624**
Profit on disposal of property, plant and equipment	**(1 784)**	**499**	**13**	**(1 272)**
Impairment of property, plant and equipment	**3 800**	**(1 064)**	**—**	**2 736**
Impairment of intangible assets	**338**	**(95)**	**—**	**243**
Foreign currency translation reserve recycled to profit or loss	**(3 097)**	**—**	**—**	**(3 097)**
Profit on disposal of subsidiary	**(2 824)**	**—**	**—**	**(2 824)**
Profit on disposal of property, plant and equipment in associate	**(16 771)**	**4 696**	**—**	**(12 075)**
Impairment of intangible assets in associate	**14 355**	**(4 019)**	**—**	**10 336**
Headline earnings				**987 671**
Weighted average number of ordinary shares in issue (thousands)				**855 687**
Headline earnings per share (cents per share)				**115.42**
2017 Restated				
Profit attributable to equity holders of the parent	1 144 966	(329 816)	(33 896)	781 254
Loss on disposal of property, plant and equipment	30	(8)	1	23
Impairment of intangible assets in joint venture	339	—	—	339
Headline earnings				781 616
Weighted average number of ordinary shares in issue (thousands)				684 508
Headline earnings per share (cents per share)				114.19

1. Results of operations continued

1.5 Earnings per share continued

		2018	Restated 2017
(c)	**Diluted – basic and headline**		
	Basic earnings (R'000)	**993 624**	781 254
	Dilutive instrument (R'000)[1]	**(4 842)**	—
	Dilutive instrument in associate (R'000)[2]	**(58 552)**	—
	Dilutive earnings (R'000)	**930 230**	781 254
	Weighted average number of ordinary shares in issue (thousands)	**855 687**	684 508
	Adjusted for forfeitable shares (thousands)	**4 801**	5 814
	Weighted average number of ordinary shares for diluted earnings (thousands)	**860 488**	690 322
	Diluted basic earnings per share (cents per share)	**108.10**	113.17
	Headline earnings (R'000)	**987 671**	781 616
	Dilutive instrument (R'000)[1]	**(4 842)**	—
	Dilutive instrument in associate (R'000)[2]	**(58 552)**	—
	Headline dilutive earnings (R'000)	**924 277**	781 616
	Weighted average number of ordinary shares for diluted headline earnings (thousands)	**860 488**	690 321
	Diluted headline earnings per share (cents)	**107.41**	113.22

[1] *This represents the effect of the dilution in Panacea Mobile Proprietary Limited and Simigenix Proprietary Limited. Refer to the statement of changes in equity.*
[2] *This refers to the potential dilution of the Group's shareholding in Cell C Limited due to its equity-settled share scheme.*

		2018	Restated 2017
(d)	**Core headline**		
	Reconciliation between net profit for the period and core headline earnings for the period:		
	Net profit for the period (R'000)	**993 624**	781 254
	Amortisation on intangibles raised through business combinations net of tax and non-controlling interest (R'000)	**44 345**	14 069
	Core net profit for the period (R'000)	**1 037 969**	795 323
	Headline earnings adjustments (R'000)	**(5 953)**	362
	Core headline earnings (R'000)	**1 032 016**	795 685
	Weighted average number of ordinary shares in issue (thousands)	**855 687**	684 508
	Core headline earnings per share (cents per share)	**120.61**	116.24

1. Results of operations continued

1.6 Cash generated by operations

	2018 R'000	Restated 2017 R'000
Reconciliation of operating profit to cash generated by operating activities:		
Operating profit	**1 097 549**	1 174 890
Adjustments for:		
Depreciation of property, plant and equipment	**46 144**	44 684
Amortisation of intangible assets	**138 972**	143 109
Fair value gain on financial instruments	**(51 001)**	—
Fair value loss on financial instruments	**45 360**	—
Impairment of intangible assets	**338**	—
Impairment of property, plant and equipment	**3 800**	—
Impairment of loans	**142 069**	4 001
Impairment of inventory	**5 489**	1 178
Discounting of receivables	**3 472**	5 480
Discounting of loans and other payables	**(73 697)**	(4 270)
Surety receivable recognised	**(55 005)**	—
Loan release*	**(11 349)**	—
(Profit)/loss on disposal of property, plant and equipment	**(1 784)**	30
Profit on disposal of subsidiary	**(2 824)**	—
Foreign currency translation reserve recycled on disposal of subsidiary	**(3 097)**	—
Contingent purchase price release	**(1 390)**	(10 210)
Equity compensation benefit expense	**23 862**	23 417
B-BBEE charge	**1 400**	—
Net unrealised forex loss	**9 795**	47 157
Changes in working capital (excluding the effects of acquisitions and disposals):		
Decrease/(increase) in inventories	**1 712 311**	(518 909)
Increase in trade and other receivables	**(497 236)**	(105 249)
Increase in trade and other payables	**1 050 550**	953 124
Decrease/(increase) in loans receivable	**5 296**	(5 405)
(Increase)/decrease in starter pack assets	**(244)**	964
	3 588 780	1 753 991

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

1.7 Changes in liabilities arising from financing activities

	Note	Borrowings due within one year R'000	Borrowings due after one year R'000	Total R'000
Opening balance – 1 June 2016		16 087	—	16 087
Acquisition of subsidiary		4 742	—	4 742
Cash outflows		(2 861)	—	(2 861)
Cash inflows		58	—	58
Closing balance – 31 May 2017		**18 026**	**—**	**18 026**
Loan release	1.3	**(11 349)**	**—**	**(11 349)**
Acquisition of subsidiaries	2.5	**—**	**1 269 882**	**1 269 882**
Amount to be settled on 3G Mobile acquisition	2.5	**718 453**	**—**	**718 453**
Non-cash interest accrued		**45 450**	**—**	**45 450**
Other changes		**(4 738)**	**—**	**(4 738)**
Cash outflows		**(58)**	**—**	**(58)**
Cash inflows		**691 184**	**244 258**	**935 442**
Closing balance – 31 May 2018		**1 456 968**	**1 514 140**	**2 971 108**

2. Group composition

Basis of consolidation

(a) Subsidiaries

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

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

Acquisition-related costs are expensed as incurred.

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

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

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

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

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

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(d) Associates and joint ventures

Investments in associates and joint ventures are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates and joint ventures includes goodwill identified on acquisition. Loans made to associates and joint ventures that are equity in nature are treated as part of the cost of the investment made.

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures.

The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. The carrying amount of the investment is also adjusted for the Group's share of post-acquisition movements in other net assets.

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

2. Group composition continued

Basis of consolidation continued

The Group determines at each reporting date if there are any indicators which would require the Group to test whether the investment in the associate or joint venture is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognises the amount adjacent to share of profit/(loss) from associates in the income statement.

Dilution gains and losses arising in investments in associates and joint ventures are recognised in the income statement.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

When the Group's share of losses in an associate or joint venture equals or exceeds its interests in the associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate or joint venture.

Critical accounting judgements and assumptions

(a) Valuation of intangible assets acquired as part of a business combination

The fair values of all identifiable intangible assets acquired as part of a business combination are determined using recognised valuation techniques. Such techniques often rely on forecasts of future cash flows and the use of appropriate discount rates that reflect the risk factors associated with the cash flows.

These valuations are based on information at the time of the acquisition and the expectations and assumptions that have been deemed reasonable by the Group's management. The risk exists that the underlying assumptions or events associated with such assets will not occur as projected. For these reasons, among others, the actual cash flows may vary from forecasts of future cash flows.

(b) Assessment of investment in associates and joint ventures for impairment

The Group tests annually whether investment in associates and joint ventures has suffered any impairment, in accordance with the accounting policy. The recoverable amounts of the investment in associates and joint ventures have been determined based on value-in-use calculations. These calculations require the use of estimates. Refer to note 2.1 for details on these estimates.

(c) Classification of significant joint arrangements

The Group exercises judgement in determining the classification of its joint arrangements.

Blue Label Mexico S.A. de C.V.

The Group holds an effective interest of 47.56% in the issued ordinary share capital of Blue Label Mexico S.A. de C.V. The joint arrangement provides the Group and the other parties to the agreement with rights to the net assets of the entity. The investment is classified as a joint venture as unanimous approval of the shareholders is required for decisions.

2DFine Holdings Mauritius

The Group holds an effective interest of 50% in the issued ordinary share capital of 2DFine Holdings Mauritius. The joint arrangement provides the Group and the other parties to the agreement with rights to the net assets of the entity. Prior to 30 November 2016, the investment was classified as a joint venture as unanimous approval of the shareholders is required for decisions. Refer to note 2.2 for the classification subsequent to 30 November 2016.

SupaPesa Africa Limited

Viamedia Proprietary Limited (75% owned by the Group) holds 50% of SupaPesa Africa Limited. Therefore the Group equity accounts for 50% of net assets. The joint arrangement provides the Group and the other parties to the agreement with rights to the net assets of the entity. The investment is classified as a joint venture as unanimous approval of the shareholders is required for decisions.

(d) Classification of significant associates

Cell C Limited

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

2. Group composition continued

Critical accounting judgements and assumptions continued

3G Proprietary Limited

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

The classifications below refer to pre 30 November 2016. Refer to note 2.2 for the classification subsequent to 30 November 2016.

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

Blue Label Telecoms Limited (BLT) acting through its wholly owned subsidiary, Gold Label Investments Proprietary Limited (GLI), acquired a 50% interest in 2DFine Holdings Mauritius. BLT's investment through GLI is classified as a joint venture as unanimous approval of the shareholders is required for decisions. As at 31 May 2018 2DFine Holdings Mauritius and GLI hold 33.89% and 41.90% respectively of Oxigen Services India and 34.58% and 40.87% respectively of Oxigen Online. BLT therefore has an effective interest of 58.85% in Oxigen Services India and 58.16% in Oxigen Online.

Based on the nature of Oxigen Services India and Oxigen Online, management has concluded that the relevant activities (based on IFRS 10 paragraph B11 – B12) of these entities include:
- Establishing budgets and business plans.
- Determining or managing capital and obtaining funding.
- Appointing/terminating and remunerating key management personnel.

Decisions over these relevant activities are made by the majority vote of the Board of Directors. The ability of the shareholders to appoint directors to the board is dictated by the shareholders agreement which requires:
- GLI (BLT wholly owned subsidiary) – up to a maximum of three directors
- 2DFine (joint venture of BLT with Neptune) – up to a maximum of two directors
- Neptune (unrelated third party) – up to a maximum of three directors

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

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

(e) Deferred tax assessment in associates

At acquisition date of Cell C Limited, 2 August 2017, a deferred tax asset of R2 172 million was recognised relating to unrecognised tax losses. Post-acquisition a further R1 922 million deferred tax asset has been recognised bringing the closing balance to R4 094 million.

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

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

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

2. Group composition continued

2.1 Investments in and loans to associates and joint ventures

	Associate	Associate	Joint venture	
Company	**Cell C Limited**	**Oxigen Services India Private Limited**	**Blue Label Mexico S.A. de C.V.**	
Principal activity	**Mobile network**	**Airtime and payment solution provider**	**Distributor of terminals to vend e-tokens of value**	
Country of incorporation	**South Africa**	**India**	**Mexico**	
	2018 R'000	2017* R'000	**2018 R'000**	2017 R'000
Cost and share of reserves at the beginning of the year	**—**	303 512	**173 669**	254 855
Acquisition of associates and joint ventures	**5 532 891**	—	**—**	—
Share of (losses)/profits from associates and joint ventures	**562 568**	(119 831)	**(21 901)**	(36 978)
Share of results after tax	**571 214**[3]	(119 568)	**(20 351)**	(35 382)
Amortisation of intangible assets	**(12 009)**	(365)	**(2 152)**	(2 217)
Deferred tax on intangible assets amortisation	**3 363**	102	**602**	621
Foreign currency translation reserve	**—**	(35 085)	**(14 967)**	(44 208)
Dividends received	**—**	—	**—**	—
Reclassification to venture capital associate	**—**	(148 596)	**—**	—
Conversion of associate to subsidiary – 3G Mobile	**—**	—	**—**	—
Cost and share of reserves at the end of the year	**6 095 459**	—	**136 801**	173 669
Loans to associates and joint ventures				
Loans at the beginning of the year	**—**	38 359		—
Reclassification to venture capital associate	**—**	(36 025)		—
Loans granted to associates and joint ventures	**1 029 626**	2 136		—
Loans repaid by associates and joint ventures	**—**	—		—
Unrealised foreign exchange profit on loans to associates and joint ventures	**—**	(4 470)		—
Loans at the end of the year	**1 029 626**	—	**—**	—
Closing net book value	**7 125 085**	—	**136 801**	173 669

[1] *2DFine Group consists of 2DFine Holdings Mauritius and 2DFine Investments Mauritius.*
[2] *R895 million represents the acquisition of 3G Mobile on 2 August 2017. This was converted to a subsidiary on 6 December 2017. R4 million (2017: R9.3 million) represents an equity loan granted to Lornanox Proprietary Limited. These loans are repayable from surplus reserves at the discretion of the Board.*
[3] *Included in Cell C Limited's share of profits from associates is a deferred tax asset raised to the value of R1 922 million. The Group's 45% share equates to R865 million.*
* *On 1 June 2016 Oxigen Services India was demerged into two separate entities. Refer to note 2.2. The results of these entities have been aggregated for purposes of reporting these associates while they were equity accounted for during the period 1 June 2016 to November 2016.*

Joint venture	Joint venture		Other associates		Other joint ventures		Total	
2DFine Group[1]	SupaPesa Africa Limited							
Investment holding company	Content provider							
Mauritius	Mauritius							
2017* R'000	**2018 R'000**	2017 R'000	**2018 R'000**	2017 R'000	**2018 R'000**	2017 R'000	**2018 R'000**	2017 R'000
(42 286)	**38 846**	44 464	**82 551**	64 547	**1 429**	3 279	**296 495**	628 371
—	**—**	—	**911 888[2]**	21 305	**—**	—	**6 444 779**	21 305
(5 409)	**(222)**	2 012	**20 957**	(2 885)	**4 410**	(1 850)	**565 812**	(164 941)
(5 409)	**(222)**	2 012	**25 545**	(2 885)	**4 410**	(1 850)	**580 596**	(163 082)
—	**—**	—	**(6 372)**	—	**—**	—	**(20 533)**	(2 582)
—	**—**	—	**1 784**	—	**—**	—	**5 749**	723
4 915	**(1 587)**	(7 630)	**681**	(416)	**—**	—	**(15 873)**	(82 424)
—	**—**	—	**(1 620)**	—	**(2 631)**	—	**(4 251)**	—
42 780	**—**	—	**—**	—	**—**	—	**—**	(105 816)
—	**—**	—	**(926 482)**	—	**—**	—	**(926 482)**	—
—	**37 037**	38 846	**87 975**	82 551	**3 208**	1 429	**6 360 480**	296 495
234 892	**—**	—		—	**19 338**	8 945	**19 338**	282 196
(218 889)	**—**	—	**—**	—	**—**	—	**—**	(254 914)
10 982	**—**	—	**—**	—	**18 937**	10 986	**1 048 563**	24 104
—	**—**	—	**—**	—	**(450)**	(593)	**(450)**	(593)
(26 985)	**—**	—	**—**	—	**—**	—	**—**	(31 455)
—	**—**	—	**—**	—	**37 825**	19 338	**1 067 451**	19 338
—	**37 037**	38 846	**87 975**	82 551	**41 033**	20 767	**7 427 931**	315 833

2. Group composition continued

2.1 Investments in and loans to associates and joint ventures continued

	Associate	Associate
Company	**Cell C Limited**	**Oxigen Services India Private Limited**
Principal activity	**Mobile network**	**Airtime and payment solution provider**
Country of incorporation	**South Africa**	**India**
Financial year-end**	**31 December**	**31 March**
	31 May 2018 R'000	30 November 2016* R'000
Statement of financial position		
Non-current assets	**21 533 877**	486 634
Current assets	**5 452 624**	409 205
Cash and cash equivalents	**52 994**	218 584
Other current assets	**5 399 630**	190 621
	26 986 501	895 839
Total equity	**10 617 066**	(51 360)
Non-current liabilities	**8 264 676**	40 756
Current liabilities	**8 104 759**	906 443
Trade and other payables	**5 991 793**	515 788
Other current liabilities	**2 112 966**	390 655
	26 986 501	895 839
Effective percentage held	**45**	58.18
Net assets	**10 617 066**	(51 360)
Company net assets	**3 294 078**	(64 602)
Carrying value of purchase price allocations net of deferred taxation	**7 322 988**	13 242[2]
Interest in associate and joint ventures	**4 777 680**	(33 787)
Goodwill	**1 317 779**	182 383
Balance at the end of the year	**6 095 459**	148 596

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

2 The purchase price allocation arose when the 2DFine Group purchased its holding into OSI in June 2011. The Group therefore only accounts for its effective share of the carrying value of the purchase price allocations. The effective share is 17.21%.

3 Viamedia Proprietary Limited (75% owned by the Group) holds 50% of SupaPesa Africa Proprietary Limited. Therefore the Group equity accounts for 50% of net assets.

* *On 1 June 2016 Oxigen Services India was demerged into two separate entities. Refer to note 2.2. The results of these entities have been aggregated for purposes of reporting these associates while they were equity accounted for during the period 1 June 2016 to November 2016.*

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

Joint venture		Joint venture	Joint venture	
Blue Label Mexico S.A. de C.V.		2DFine Group[1]	SupaPesa Africa Limited	
Distributor of terminals to vend e-tokens of value		Investment holding company	Content provider	
Mexico		Mauritius	Mauritius	
31 December		31 May	31 May	
31 May 2018 R'000	31 May 2017 R'000	30 November 2016* R'000	**31 May 2018 R'000**	31 May 2017 R'000
54 122	97 857	138 007	**8 515**	8 862
223 191	162 885	52	**7 555**	10 927
113 209	64 515	2	**125**	5 324
109 982	98 370	50	**7 430**	5 603
277 313	260 742	138 059	**16 070**	19 789
59 394	112 560	(85 560)	**9 304**	10 283
3 206	4 839	—	**6 753**	7 533
214 713	143 343	223 619	**13**	1 973
213 228	143 062	1 279	**13**	1 973
1 485	281	222 340	**—**	—
277 313	260 742	138 059	**16 070**	19 789
47.56	47.56	50	**37.5**	37.5
59 394	112 560	(85 560)	**9 304**	10 283
51 149	100 118	(85 560)	**9 304**	10 283
8 245	12 442	—	**—**	—
28 248	53 534	(42 780)	**4 652[3]**	5 142[3]
108 553	120 135	—	**32 385**	33 707
136 801	173 669	(42 780)	**37 037**	38 849

2. Group composition continued

2.1 Investments in and loans to associates and joint ventures continued

	Associate	Associate
Company	**Cell C Limited**	**Oxigen Services India Private Limited**
Principal activity	**Mobile network**	**Airtime and payment solution provider**
Country of incorporation	**South Africa**	**India**
Financial year-end**	**31 December**	**31 March**
	2 August 2017 to 31 May 2018 R'000	1 June 2016 to 30 November 2016* R'000
Statement of comprehensive income		
Revenue	**13 127 977**	6 125 645
Operating profit before depreciation, amortisation and impairment charges	**1 962 920**	(155 773)
Depreciation, amortisation and impairment	**(1 692 649)**	(36 114)
Finance costs	**(934 469)**	(17 780)
Finance income	**41 143**	4 194
Net (loss)/profit before taxation	**(623 054)**	(205 473)
Taxation	**1 873 204**	(493)
Net profit/(loss) after taxation	**1 250 150**	(205 966)
Other comprehensive income/(loss)	**—**	(21 713)
Total comprehensive income/(loss)	**1 250 150**	(227 679)
Effective percentage held	**45**	58.18
Share of total comprehensive income	**562 568**	(131 587)

[1] *2DFine Group consists of 2DFine Holdings Mauritius and 2DFine Investments Mauritius.*

[2] *The purchase price allocation arose when the 2DFine Group purchased its holding into OSI in June 2011. The Group therefore only accounts for its effective share of the carrying value of the purchase price allocations. The effective share is 17.21%.*

[3] *Viamedia Proprietary Limited (75% owned by the Group) holds 50% of SupaPesa Africa Proprietary Limited. Therefore the Group equity accounts for 50% of net assets.*

* *On 1 June 2016 Oxigen Services India was demerged into two separate entities. Refer to note 2.2. The results of these entities have been aggregated for purposes of reporting these associates while they were equity accounted for during the period 1 June 2016 to November 2016.*

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

Joint venture		Joint venture	Joint venture	
Blue Label Mexico S.A. de C.V.		**2DFine Group[1]**	**SupaPesa Africa Limited**	
Distributor of terminals to vend e-tokens of value		**Investment holding company**	**Content provider**	
Mexico		**Mauritius**	**Mauritius**	
31 December		**31 May**	**31 May**	
1 June 2017 to 31 May 2018 R'000	1 June 2016 to 31 May 2017 R'000	1 June 2016 to 30 November 2016* R'000	**1 June 2017 to 31 May 2018 R'000**	1 June 2016 to 31 May 2017 R'000
4 010 909	3 075 053	—	**7 316**	13 364
(485)	(27 358)	(264)	**279**	4 970
(48 800)	(52 516)	—	**—**	—
—	—	(10 555)	**(736)**	(816)
3 397	1 859	—	**—**	—
(45 888)	(78 015)	(10 819)	**(457)**	4 154
(159)	265	—	**14**	(125)
(46 047)	(77 750)	(10 819)	**(443)**	4 029
(7 119)	(37 922)	9 830	**(535)**	(1 635)
(53 166)	(115 672)	(989)	**(978)**	2 394
47.56	47.56	50	**37.5[3]**	37.5[3]
(25 286)	(55 014)	(495)	**(489)**	1 197

2. Group composition continued

2.1 Investments in and loans to associates and joint ventures continued

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

	Country of incorporation	Non-current assets R'000	Current assets R'000
2018			
Lornanox Proprietary Limited	South Africa	**57 297**	**132 320**
iCrypto Inc.	USA	**534**	**10 187**
Utilities World Proprietary Limited	South Africa	**34**	**79 907**
3G Mobile (Botswana) Proprietary Limited	Botswana	**1 956**	**36 366**
Mpower Softcomm Private Limited	India	**97 665**	**20 564**
2017			
Lornanox Proprietary Limited	South Africa	47 340	119 691
Utilities World Proprietary Limited	South Africa	52	8 043
Mpower Softcomm Private Limited	India	105 216	14 844

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

	Country of incorporation	Non-current assets R'000	Current assets R'000
2018			
Supa Pesa South Africa Proprietary Limited	South Africa	**664**	**3 361**
Prepaid24 Proprietary Limited (previously Banosign Proprietary Limited)	South Africa	**214**	**5 961**
United Call Centre Solutions Proprietary Limited	South Africa	**3 299**	**106 654**
Datacision Proprietary Limited	South Africa	**—**	**3 206**
2017			
Supa Pesa South Africa Proprietary Limited	South Africa	659	4 101
Prepaid24 Proprietary Limited (previously Banosign Proprietary Limited)	South Africa	270	4 320
United Call Centre Solutions Proprietary Limited	South Africa	1 110	1 114
Datacision Proprietary Limited	South Africa	—	13 493

Loans to associates and joint ventures

	Interest rate	2018 R'000	2017 R'000
Supa Pesa South Africa Proprietary Limited	11%	**6 265**	6 714
United Call Centre Solutions Proprietary Limited	0%	**18 190**	1 591
Cell C Limited	17%	**740 000**	—
Cell C Limited	Prime less 0.5%	**289 626**	—
Prepaid24 Proprietary Limited	Prime	**5 570**	5 033
Prepaid24 Proprietary Limited	0%	**7 800**	6 000
		1 067 451	19 338

The loans are neither past due nor impaired with a low risk of default.

The loans to associates and joint ventures are repayable on demand.

The loan to Cell C Limited was repaid in full post-year-end.

Non-current liabilities R'000	Current liabilities R'000	Revenues R'000	Net profit/ (loss) R'000	Total comprehensive profit/ (loss) R'000	Effective percentage interest held %	Carrying value of investment R'000
—	**243 423**	**274 026**	**(30 966)**	**(30 966)**	**40**	**57 727**
—	**58**	**—**	**(3 678)**	**(2 680)**	**14.3**	**11 826**
—	**69 029**	**78 507**	**9 821**	**9 821**	**25.1**	**14 586**
—	**36 435**	**49 809**	**110**	**110**	**50**	**940**
1 914	**7 412**	**46 582**	**2 798**	**1 106**	**21.6**	**2 896**
—	189 870	248 105	(11 451)	(11 451)	40	66 073
—	549	45 819	6 752	6 752	25.1	13 741
2 348	8 746	50 448	*	*	21.6	2 737

Non-current liabilities R'000	Current liabilities R'000	Revenues R'000	Net profit/ (loss) R'000	Total comprehensive profit/ (loss) R'000	Effective percentage interest held %	Carrying value of investment R'000
6 265	**462**	**11 296**	**(338)**	**(338)**	**37.5**	**8 752**
13 371	**191**	**15 447**	**(1 598)**	**(1 598)**	**50.1**	**10 470**
—	**106 261**	**81 156**	**10 027**	**10 027**	**50**	**20 036**
13	**831**	**6 980**	**600**	**600**	**40.5**	**1 775**
6 715	410	3 738	427	427	37.5	9 370
—	10 380	13 974	(5 027)	(5 027)	50.1	8 132
—	3 693	4 040	(1 469)	(1 469)	50	1 591
26	724	8 823	910	910	40.5	1 674

2. Group composition continued

2.1 Investments in and loans to associates and joint ventures continued

The Group considers its maximum exposure in respect of these loans, without taking into account any collateral and financial guarantees, to be as follows:

	2018 R'000	2017 R'000
Group 1	**—**	1 591
Group 2	**1 061 186**	11 032
Group 3	**6 265**	6 715
	1 067 451	19 338

The rating groups for counterparties are categorised as follows:
Group 1 – New customers/related parties (less than six months).
Group 2 – Existing customers/related parties (more than six months) with no defaults in the past.
Group 3 – Existing customers/related parties (more than six months) with some defaults in the past.

Impairment of associates and joint ventures

There was no impairment of investment in associates and joint ventures. This was tested by comparing the recoverable amount against the carrying value of the investment in associates and joint ventures.

The recoverable amount is the higher of fair value less cost of disposal and the value-in-use. These value-in-use calculations use cash flow projections based on financial budgets approved by the Board of Directors for the forthcoming year and forecasts for up to five years which are based on assumptions of the business, industry and economic growth. Cash flows beyond this period are extrapolated using terminal growth rates, which do not exceed the expected long-term economic growth rate.

The key assumptions used for the value-in-use calculations are as follows:

	2018		2017	
	Growth rate %	**Discount rate %**	Growth rate %	Discount rate* %
Lornanox Proprietary Limited	**4**	**21.2**	4	21.9
Prepaid 24 Proprietary Limited	**4**	**21.5**	—	—
Cell C Limited	**5.5**	**19.9**	—	—
SupaPesa Africa Limited	**4**	**20.5**	4	20.3
Blue Label Mexico S.A. de C.V.	**3.5**	**20.3**	3.5	20.5

** The 2017 rates have been updated to represent a pre-tax WACC rate. In addition, an error was identified in some inputs. These have also been updated. No impairment was required under the new rates.*

The discount rates used are pre-tax and reflect specific risks relating to the relevant associates and joint ventures. The growth rate is used to extrapolate cash flows beyond the budget period. The growth rates were consistent with publicly available information relating to long-term average growth rates for each of the markets in which the companies operate.

The inputs used when calculating the value-in-use would need to be increased/(decreased) by the following amounts before any impairment would need to be recognised:

	Growth rate %	**Discount rate %**
Cell C Limited	(1.2)	0.6

The headroom in the value-in-use calculated and the Group carrying value is as follows:

	Excess over carrying value R'000
Cell C Limited	534 541

2. Group composition continued

2.1 Investments in and loans to associates and joint ventures continued

For Blue Label Mexico S.A. de C.V., SupaPesa Africa Limited, Prepaid 24 Proprietary Limited and Lornanox Proprietary Limited, if one or more of the inputs were changed to a reasonable possible alternative, there would be no impairments that would have to be recognised.

Based on these factors, as well as the impairment testing performed the Group has concluded that no impairment is indicated.

The Group has concluded that no impairment of its investment in Blue Label Mexico is required. Its decline in losses was attributable to an increase in revenue, underpinned by higher gross profit margins and a containment in overheads. This resulted in a significant turnaround from a negative EBITDA to break even at that level.

Revenue increased in pursuance of its strategy of increasing the number of transactional terminals at higher ARPUs, in line with customer penetration through incremental products and services provided as well as extending its reach to merchants through the distribution channels of Grupo Bimbo. The growth in margins was congruent with the increase in the distribution of starter packs generating monthly compounded annuity income and higher margins afforded by the smaller networks. Bill payments, credit and debit card acquiring and food vouchers have increased perpetually.

The Group has concluded there is no impairment in Lornanox Proprietary Limited. A hybrid of existing stores at reduced overhead, new stores in more favourable localities generating higher ARPUs, improved ongoing revenue and connection incentive bonuses, a cell captive insurance programme and contributions by the network operators towards capital expenditure will result in profitability generating sufficient cash flow in support of the carrying value of the company.

Shares in associates and joint ventures acquired during the current year

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

On 2 August 2017, Blue Label, through its wholly owned subsidiary, TPC, acquired 45% of the issued share capital of Cell C for a purchase consideration of R5.5 billion. Of this amount, 183 333 333 ordinary shares were subscribed for by third parties at an issue price of R15.00 per share, equating to R2.75 billion. The proceeds from this share issue together with existing cash resources was used to pay the purchase consideration of R5.5 billion.

On the same date, TPC concluded an agreement to purchase 100% of the issued share capital in 3G Mobile from its shareholders for a purchase consideration of R1.9 billion. The acquisition has been structured in two stages, whereby 47.37% of the issued share capital was initially acquired for a purchase consideration of R895 million. This has been accounted for as an associate from this date until 6 December 2017. Subsequently, the remaining 52.63% of the issued share capital was acquired for a further R963 million. From 6 December 2017 this investment is accounted for as a subsidiary. Refer to note 2.5 for further details.

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

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

2. Group composition continued

2.1 Investments in and loans to associates and joint ventures continued

Shares in associates converted to subsidiary in the current year

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

Shares in associates and joint ventures acquired during the prior year

		Date acquired	Effective percentage
United Call Centre Solutions Proprietary Limited	Joint venture	19 December 2016	50
Oxigen Online Services India Private Limited	Associate	1 June 2016	58.18
Utilities World Proprietary Limited	Associate	1 June 2016	25.1

On 1 June 2016 Oxigen Services India was demerged into two entities. The second entity, Oxigen Online, mirrored the shareholding of Oxigen Services India. Refer to note 2.2.

Utilities World was acquired on 1 June 2016 for a payment of R7.5 million and a further contingent payment of R4.0 million which was settled on 31 August 2017.

BLT's co-shareholder in BLM, Grupo Bimbo S.A.B de C.V. (Bimbo) has guaranteed the performance of BLM's obligation to Radiomovil Dipsa S.A. de C.V. (trading as Telcel) (Telcel). BLT has in turn provided Bimbo with a back-to-back guarantee in terms of which BLT shall reimburse Bimbo a percentage (prorate to the respective parties' shareholding in BLM) of any liability incurred by BLM in terms of its trade agreement with Telcel. At year-end there is no amount due to Telcel by BLM.

There are no other contingent liabilities relating to the Group's interest in joint ventures.

For details on related-party transactions, refer to note 8.

Cell C balance summary

Due to the significance of the Group's exposure to Cell C, the table below summarises all of the financial assets and liabilities that the Group has with respect to Cell C.

	2018 R'000
Investment in associate (refer to note 2.1)	**6 095 459**
Trade receivables (refer to note 3.1.2)	**2 623 194**
Loans receivable (refer to note 2.1)	**1 029 626**
Financial assets at fair value through profit and loss – bond notes (refer to note 3.3)	**182 036**
Trade payables (refer to note 3.2.1)	**(1 573 472)**

2. Group composition continued

2.2 Investments in and loans to venture capital associates and joint venture

An associate and joint venture is accounted for as a venture capital investment where the Group has significant influence in an associate or joint venture but the Group considers the investment to be a venture capital investment. This is the case when the Group manages the investment on a fair value basis and has an exit strategy related to the investment whereby the Group intends to recover the value of its investment through sale.

Critical accounting estimates and assumptions

IAS 28 exemption with respect to Oxigen Services India, Oxigen Online and 2DFine Holdings Mauritius.

The exemption available in IAS 28 – *Investments in Associates and Joint Ventures* has been applied to the investment in Oxigen Services India, Oxigen Online and 2DFine Holdings Mauritius from 30 November 2016 and the investment is accounted for in accordance with IAS 39 – *Financial Instruments: Recognition and Measurement* at fair value with changes in fair value recognised in profit or loss. The differential between the carrying amount of the investment (previously equity accounted for) and the fair value at this date is reflected as a gain on associate measured at fair value in the Group income statement. Any changes in the fair value have been recognised in the Group income statement.

Oxigen Services India was demerged into two separate entities with effect from 1 June 2016. This was done in line with the Group's exit strategy to improve the marketability of these entities to potential investors.

Prior to 30 November 2016, the investment in Oxigen Services India was of a strategic nature as it was expected to emulate the business model of the South African Distribution operations. The original decision to invest in this business was because it was strategically aligned with other Blue Label distribution businesses in South Africa. However, its profile has changed from that of the traditional Group business to one of generating growth in the market value of the investment with a view to unlocking the Group's share thereof. With the advent of its change in focus to financial services through wallet subscription, it is no longer strategically aligned with the other business units of the Group and is unlikely to generate profitability in the short to medium term. However, the market value of the company is expected to increase exponentially in conjunction with its growth in wallet subscribers. This in turn creates the potential to unlock the investment in value in the future and the Group is pursuing this new strategy with respect to its investment in Oxigen Services India. In line with the Group's exit strategy Oxigen Services India was demerged into two separate entities with effect from 1 June 2016. This was done to improve the marketability of these entities to potential investors.

2DFine Holdings Mauritius is an investment holding company that holds an effective interest in Oxigen Services India and Oxigen Online.

Consequently, management reviews the results and operations of Oxigen Services India, Oxigen Online and 2DFine Holdings Mauritius on a fair value basis as opposed to the profits/losses that it generates. In addition, management has established an exit strategy that looks to realise this fair value in the foreseeable future.

Accordingly, in accordance with IAS 28 – *Investments in Associates and Joint Ventures* Oxigen Services, India, Oxigen Online and 2DFine Holdings Mauritius are viewed as venture capital investments which have been accounted for at fair value through profit and loss from 30 November 2016 at which date equity accounting ceased, in line with IFRS 13 – *Fair Value Measurement*.

2. Group composition continued

2.2 Investments in and loans to venture capital associates and joint venture continued

Company	Associate Oxigen Services India Private Limited	
Principal activity	Airtime and payment solution provider	
Country of incorporation	India	
	2018 R'000	2017 R'000
Fair value at the beginning of the year	**262 657**	—
Reclassification	**—**	230 103
Fair value adjustment	**(132 351)**	11 388
Capital contribution[2]	**12 675**	21 166
Fair value at the end of the year	**142 981**	262 657
Loans to venture capital associates and joint venture		
Loans at the beginning of the year	**34 310**	—
Reclassification	**—**	36 025
Loans granted	**1 025**	429
Impairment of loans[3]	**—**	—
Unrealised foreign exchange profit	**(1 318)**	(2 144)
Loans at the end of the year	**34 017**	34 310
Closing fair value	**176 998**	296 967

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

[2] In the current year there was a rights issue in Oxigen Services India and Oxigen Online. The effect of these rights issues resulted in the shareholding of 2DFine Holdings Mauritius and GLI being 33.89% and 41.90% respectively of Oxigen Services India and 34.58% and 40.87% respectively of Oxigen Online. BLT therefore has an effective interest of 58.85% (2017: 58.88%) in Oxigen Services India and 58.16% (2017: 58.17%) in Oxigen Online. In the prior year, the rights offer resulted in GLI's shareholding increasing from 40.96% to 41.96% and its indirect shareholding of 17.21% being diluted to 16.92%. The Group's effective shareholding in OSI therefore increased by 0.7% to 58.88%.

[3] The loans to 2DFine Holdings have been impaired as the only asset that 2DFine holds that can be utilised to recover this loan is the investment in Oxigen Services India and Oxigen Online. The fair values have decreased significantly in the current year. B Levy and M Levy have signed personal sureties relating to a portion of the irrecoverable portion of the loan. This has been recognised as a loan receivable, see note 3.1.1.

The fair value of Oxigen Services India, Oxigen Online and the 2DFine Group as at 31 May 2018 has declined due to lack of funding. This has resulted in Oxigen Online and 2DFine being carried at Rnil. Although negotiations remain in progress with potential investors, until such time as a transaction is completed, the lack of cash resources will inhibit its propensity for growth through the roll out of a significant number of Micro ATM terminals. The latter is the essence of its ability to generate growth in the market value of the investment therein and is the cause of the necessity to reduce the fair value of the Oxigen group.

	Associate Oxigen Online Services India Private Limited Online payment solution provider India		Joint venture 2DFine Group[1] Investment holding company Mauritius		Total	
	2018 R'000	2017 R'000	**2018 R'000**	2017 R'000	**2018 R'000**	2017 R'000
	24 692	—	**4 201**	—	**291 550**	—
	—	(81 507)	**—**	(42 780)	**—**	105 816
	(37 093)	101 831	**(4 201)**	46 981	**(173 645)**	160 200
	12 401	4 368	**—**	—	**25 076**	25 534
	—	24 692	**—**	4 201	**142 981**	291 550
	—	—	**218 305**	—	**252 615**	—
	—		**—**	218 889	**—**	254 914
	—	—	**32 858**	12 974	**33 883**	13 403
	—	—	**(141 850)**	—	**(141 850)**	—
	—	—	**(8 476)**	(13 558)	**(9 794)**	(15 702)
	—	—	**100 837**	218 305	**134 854**	252 615
	—	24 692	**100 837**	222 506	**277 835**	544 165

2. Group composition continued

2.2 Investments in and loans to venture capital associates and joint venture continued

	Associate Oxigen Services India Private Limited		Associate Oxigen Online Services India Private Limited		Joint venture 2DFine Group[1]	
	31 May 2018 R'000*	31 May 2017 R'000*	**31 May 2018 R'000***	31 May 2017 R'000*	**31 May 2018 R'000***	31 May 2017 R'000*
Statement of financial position						
Non-current assets	**283 211**	300 229	**80 502**	123 757	**148 778**	132 299
Current assets	**524 800**	497 252	**13 567**	28 854	**245**	49
Cash and cash equivalents	**107 159**	123 752	**22**	624	**199**	2
Other current assets	**417 641**	373 500	**13 545**	28 230	**46**	47
	808 011	797 481	**94 069**	152 611	**149 023**	132 348
Total equity	**245 522**	176 260	**(148 802)**	(116 800)	**(111 525)**	(91 938)
Non-current liabilities	**52 920**	57 598	**137**	900	**—**	—
Current liabilities	**509 569**	563 623	**242 734**	268 511	**260 548**	224 286
Trade and other payables	**30 861**	26 507	**8 425**	4 784	**1 224**	275
Other current liabilities	**478 708**	537 116	**234 309**	263 727	**259 324**	224 011
	808 011	797 481	**94 069**	152 611	**149 023**	132 348

	31 May 2018 R'000*	6 months ended 31 May 2017 R'000*	**31 May 2018 R'000***	6 months ended 31 May 2017 R'000*	**31 May 2018 R'000***	6 months ended 31 May 2017 R'000*
Statement of comprehensive income						
Revenue	**2 036 910**	2 150 281	**1 264 413**	1 673 991	**—**	—
Operating profit/(loss) before depreciation, amortisation and impairment charges	**35 308**	42 585	**(25 214)**	(63 921)	**(1 952)**	(1 371)
Depreciation and amortisation	**(12 800)**	(7 457)	**(33 690)**	(17 261)	**—**	—
Finance costs	**(15 495)**	(5 818)	**(18 500)**	(9 284)	**(21 258)**	(10 625)
Finance income	**—**	—	**—**	—	**3**	—
Net profit/(loss) before taxation	**7 013**	29 310	**(77 404)**	(90 466)	**(23 207)**	(11 996)
Taxation	**(2 580)**	(5 540)	**—**	—	**—**	—
Net profit/(loss) after taxation	**4 433**	23 770	**(77 404)**	(90 466)	**(23 207)**	(11 996)
Other comprehensive income/(loss)	**—**	—	**—**	—	**4 825**	(5 691)
Total comprehensive income/(loss)	**4 433**	23 770	**(77 404)**	(90 466)	**(18 382)**	(17 687)

[1] 2DFine Group consists of 2DFine Holdings Mauritius and 2DFine Investments Mauritius.
** The financial statements have been prepared in terms of Indian Generally Accepted Accounting Principles (IGAAP).*

2. Group composition continued

2.2 Investments in and loans to venture capital associates and joint venture continued

Fair value estimate

The finance department of the Group includes a team that outsources the valuations to qualified independent third-party valuation specialists required for financial reporting purposes, including level 3 fair values. This team reports directly to the Financial Director (FD) and the Audit, Risk and Compliance Committee (ARCC). Discussions of valuation processes and results are held between the FD, ARCC and the valuation team at least once every six months, in line with the Group's reporting periods.

Management uses this fair value information to monitor the performance of this investment as it relates to the revised investment and exit strategies. Decisions relating to e-wallet acquisition, retention and exit strategy, are discussed at monthly management meetings, focusing predominantly on the inputs (e.g. capital spend and customer acquisition/ retention spend) that drive the fair value.

The investments in venture capital associates and joint venture are level 3 valuations in the fair value hierarchy.

In terms of IFRS 13 – *Fair Value Measurement:* the market approach has been utilised in determining the fair value of the Indian entities. This approach utilises relevant information generated by similar market transactions that have been concluded by comparable businesses. The valuation is based on a multiple applied to gross revenue, based on the same principles adopted by similar business to that of the Oxigen Services group, that was recently disposed of. This differs from the discounted cash flow approach applied previously, as the market approach provided the Group with more reliable evidence to support the valuation. The revenue multiple of 4.3 was applied in determining the fair value.

In the prior year the discount rate and terminal growth rate used in calculating the fair values were 27% and 5% respectively.

In the prior year the main inputs into the cash flow models were the expected cash flows in relation to capital expenditure as well as cash flows relating to customer acquisition and engagement spend. Capital expenditure in Oxigen Services India and Oxigen Online was expected to range between R166 million and R311 million on an annual basis. Customer acquisition and engagement spend for Oxigen Services India and Oxigen Online was forecast to increase aggressively from R103 million to R2 575 million in the prior year valuation models.

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

The following table summarises the quantitative information about the significant unobservable inputs used in the level 3 fair value measurement for this investment:

Unobservable input	Change to inputs	Movement in fair value R'000
Revenue multiple	0.2	11 513
	0.1	5 803
	(0.1)	(5 803)
	(0.2)	(11 513)
	(0.3)	(17 222)

Loans to venture capital associate and joint venture	Interest rate	2018 R'000	2017 R'000
Oxigen Services India Private Limited	LIBOR + 1.50%	**34 017**	34 310
2DFine Holdings Mauritius	10%	**100 837**	218 305
		134 854	252 615

The loans are neither past due nor impaired with a low risk of default.

2. Group composition continued

2.2 Investments in and loans to venture capital associates and joint venture continued

Fair value estimate continued

The Group considers its maximum exposure in respect of these loans, without taking into account any collateral and financial guarantees, to be as follows:

	2018 R'000	2017 R'000
Group 1	—	—
Group 2	134 854	252 615
Group 3	—	—
	134 854	252 615

The rating groups for counterparties are categorised as follows:
Group 1 – New customers/related parties (less than six months).
Group 2 – Existing customers/related parties (more than six months) with no defaults in the past.
Group 3 – Existing customers/related parties (more than six months) with some defaults in the past.

The Group has subordinated a portion of its loan to 2DFine Holdings Mauritius Limited in favour of other creditors, to the value of R53 million.

R100.8 million of the Group 2 loans (2017: R218.3 million) relates to the 2DFine Holdings loan. The recoverability of this loan is dependent on the realisation of the investment in Oxigen Services India and Oxigen Online.

2.3 Non-controlling interests

Set out below is the summarised financial information relating to each subsidiary that has non-controlling interests that are material to the Group. The amounts disclosed for each subsidiary are before inter-company eliminations with other companies in the Group.

Subsidiary Principal place of business Segment	TJ Group[1] RSA Africa Distribution	
NCI %	2018 40 R'000	2017 40 R'000
Non-current assets	14 807	24 986
Current assets	67 371	49 850
Total assets	82 178	74 836
Capital and reserves	74 718	62 301
Non-current liabilities	1 084	186
Current liabilities	6 376	12 349
Total equity and liabilities	82 178	74 836
Accumulated NCI[3]	29 888	24 921
Summarised statement of comprehensive income for the year ended 31 May		
Revenue	93 998	82 257
Total comprehensive income/(loss) for the year	27 417	25 321
Comprehensive income/(loss) allocated to NCI	10 967	10 129
Summarised cash flows for the year ended 31 May		
Cash flows from operating activities	29 354	40 933
Cash flows from investing activities	(19 767)	(28 662)
Cash flows from financing activities	(15 315)	(9 884)
Net increase/(decrease) in cash and cash equivalents	(5 728)	2 387
Dividends paid to NCI	6 000	4 000

[1] *The TJ Group consists of Transaction Junction Proprietary Limited and Transaction Junction (Namibia) Proprietary Limited.*
[2] *Airvantage Proprietary Limited was acquired on 2 January 2018.*
[3] *Accumulated NCI excludes the share-based payment reserve adjustments because the awards are treated as cash-settled in the separate entities' financial statements.*
* *The APS Group consisted of African Prepaid Services Proprietary Limited and African Prepaid Services Nigeria Limited. The NCI percentage was 10% and 30.09% respectively. During the current financial year African Prepaid Services Nigeria Limited was liquidated and the non-controlling interest of African Prepaid Services Proprietary Limited was acquired.*

Cigicell Proprietary Limited RSA Africa Distribution		Airvantage Proprietary Limited[2] RSA Africa Distribution		APS Group* RSA and Nigeria International		Viamedia Proprietary Limited RSA Mobile	
2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
26	26	**40**	—	*****	*	**25**	25
R'000	R'000	**R'000**	R'000	**R'000**	R'000	**R'000**	R'000
1 302	1 330	**197 419**	—	**—**	—	**106 128**	112 630
772 181	544 698	**49 517**	—	**58**	59	**96 753**	111 395
773 483	546 028	**246 936**	—	**58**	59	**202 881**	224 025
58 074	61 640	**177 406**	—	**41**	(130 528)	**169 704**	187 605
1 673	2 927	**52 050**	—	**1**	60 245	**15 629**	16 244
713 736	481 461	**17 480**	—	**16**	70 342	**17 548**	20 176
773 483	546 028	**246 936**	—	**58**	59	**202 881**	224 025
15 099	16 026	**70 962**	—	**—**	(29 256)	**42 426**	46 901
162 207	167 726	**36 929**	—	**—**	—	**208 754**	224 883
6 434	26 661	**6 150**	—	**130 569**	(57)	**32 099**	40 905
1 673	6 931	**2 460**	—	**32 085**	(6)	**8 025**	10 226
(1 807)	25 936	**(8 329)**	—	**(1)**	(105)	**34 953**	45 006
(460)	(1 044)	**(2 214)**	—	**—**	—	**(31 217)**	(17 520)
(2 599)	(8 240)	**(1 338)**	—	**—**	103	**(50 000)**	206
(4 866)	16 652	**(11 881)**	—	**(1)**	(2)	**(46 264)**	27 692
2 600	2 600	**—**	—	**—**	—	**12 500**	12 588

2. Group composition continued

2.4 Interest in subsidiaries, associates and joint ventures

	Country	Number of issued shares	Percentage held
2018			
Subsidiaries			
Directly held:			
Subsidiaries of Blue Label Telecoms Limited			
Activi Deployment Services Proprietary Limited	RSA	100	100
Africa Prepaid Services Proprietary Limited	RSA	420	90
Airvantage Proprietary Limited	RSA	100 000	60
Blue Label Ventures Proprietary Limited	RSA	100	100
Blue Label Distribution Proprietary Limited	RSA	100	100
Blue Label One Proprietary Limited	RSA	300	100
Budding Trade 1170 Proprietary Limited	RSA	100	100
Cellfind Proprietary Limited	RSA	1 000	100
Datacel Direct Proprietary Limited	RSA	100	100
Gold Label Investments Proprietary Limited	RSA	1 000	100
Panacea Mobile Proprietary Limited	RSA	100	51
Reware Proprietary Limited	RSA	121	50.41
Simigenix Proprietary Limited	RSA	120	51
The Prepaid Company Proprietary Limited	RSA	10 000	100
The Post Paid Company Proprietary Limited	RSA	200	100
TicketPros Proprietary Limited	RSA	250	100
Transaction Junction Proprietary Limited	RSA	120	60
Uninex Proprietary Limited	RSA	100	100
Ventury Group Proprietary Limited	RSA	2 000	100
Viamedia Proprietary Limited	RSA	3 230 000	75
Virtual Voucher Proprietary Limited	RSA	200	100
Indirectly held:			
Subsidiaries of Airvantage Proprietary Limited			
Airvantage Do Brasil Sistemas E Tecnologia Ltda	Brazil	10 000	99
Subsidiaries of The Prepaid Company Proprietary Limited			
3G Mobile Proprietary Limited	RSA	402 659	100
Blue Label Connect Proprietary Limited	RSA	42 431	100
Robtronics Proprietary Limited	RSA	100	51
Subsidiaries of Cell C Limited			
Cell C Property Company Proprietary Limited	RSA	101	100
Cell C Service Provide Proprietary Limited	RSA	101	100
Cell C Tower Proprietary Limited	RSA	1	100
Subsidiaries of 3G Mobile Proprietary Limited			
Comm Equipment Company Proprietary Limited	RSA	1 000	100
Phone Fast Proprietary Limited	RSA	100	100
Three G Mobile (Namibia) Proprietary Limited	Namibia	101	99
Three G International Limited	Seychelles	100	100
Subsidiaries of Comm Equipment Company Proprietary Limited			
Comm Equipment Trading Company Proprietary Limited	RSA	100	100
Mopstyle Investments Proprietary Limited	RSA	4 000	100
Subsidiary of Three G Mobile (Namibia) Proprietary Limited			
Three G Mobile Technology Shop Proprietary Limited	Namibia	100	100
Subsidiaries of Three G International Limited			
Three-G Mobile Proprietary Limited	Mauritius	100	100
Three G Mobile (Zambia) Limited	Zambia	10 000	99
Three G Mobile (Mauritius) Limited	Mauritius	100	100
Subsidiary of Ventury Group Proprietary Limited			
Cigicell Proprietary Limited	RSA	100	74
Subsidiaries of Datacel Direct Proprietary Limited			
Blue Label Call Centre Proprietary Limited	RSA	300	100
CNS Call Centre Proprietary Limited	RSA	1 000	100
Blue Label Data Solutions Proprietary Limited	RSA	100	81

2. Group composition continued

2.4 Interest in subsidiaries, associates and joint ventures continued

	Country	Number of issued shares	Percentage held
2018			
Subsidiary of Transaction Junction Proprietary Limited			
Transaction Junction (Namibia) Proprietary Limited	Namibia	100	100
Subsidiary of 2DFine Holdings Mauritius			
2DFine Investments Mauritius	Mauritius	1	100
Subsidiaries of Blue Label Mexico S.A. de C.V.			
SGC Servicios Y Gestion Corporation S.A. de C.V.	Mexico	500	99.8
Pagacel S.A. de C.V.	Mexico	500	99.8
Transipago S.A. de C.V.	Mexico	500	99.8
Subsidiary of Viamedia Proprietary Limited			
Viadigital Proprietary Limited	RSA	120	100
Associates			
Directly held:			
Associates of Blue Label Telecoms Limited			
Lornanox Proprietary Limited	RSA	120	40
Utilities World Proprietary Limited	RSA	1 000	25.1
Indirectly held:			
Associates of Blue Label Ventures Proprietary Limited			
iCrypto Inc.	USA	43 849 920	14.29*
Associates of Gold Label Investments Proprietary Limited			
Oxigen Services India Private Limited	India	16 321 561	41.90
Oxigen Online Services India Private Limited	India	111 000	40.87
Mpower Softcomm Private Limited	India	16 286	14.4*
Associates of The Prepaid Company Proprietary Limited			
Cell C Limited	RSA	475 000 000	45
Associates of Three G International Limited			
3G Mobile (Botswana) Proprietary Limited	Botswana	100	50*
Associates of Cell C Proprietary Limited			
Firebreco Proprietary Limited	RSA	300	33
Number portability Company Proprietary Limited	RSA	500	20
Associate of 2DFine Investments Mauritius			
Mpower Softcomm Private Limited	India	16 286	14.4*
Associate of Supa Pesa South Africa Proprietary Limited			
VNA IP Holdings Proprietary Limited	RSA	1 000	70
Joint ventures			
Directly held:			
Joint ventures of Blue Label Telecoms Limited			
Blue Label Mexico S.A. de C.V.	Mexico	9 200	47.56**
Prepaid24 Proprietary Limited	RSA	501	50.1**
Indirectly held:			
Joint ventures of Blue Label Data Solutions Proprietary Limited			
Datacision Proprietary Limited	RSA	100	50
United Call Centre Solutions Proprietary Limited	RSA	100	50
Joint venture of Gold Label Investments Proprietary Limited			
2DFine Holdings Mauritius	Mauritius	2	50
Joint ventures of 2DFine Investments Mauritius			
Oxigen Services India Private Limited	India	16 321 561	33.89**
Oxigen Online Services India Private Limited	India	111 000	34.58**
Joint ventures of Viamedia Proprietary Limited			
SupaPesa Africa Limited	Mauritius	100	50
Supa Pesa South Africa Proprietary Limited	RSA	200	50

* *Significant influence is demonstrated by the Company as a result of representation on the Board of Directors.*
** *Joint control is demonstrated by the composition of and decision-making powers afforded to the Board of Directors.*

2. Group composition continued

2.4 Interest in subsidiaries, associates and joint ventures continued

	Country	Number of issued shares	Percentage held
2017			
Subsidiaries			
Directly held:			
Subsidiaries of Blue Label Telecoms Limited			
Activi Deployment Services Proprietary Limited	RSA	100	100
Africa Prepaid Services Proprietary Limited	RSA	420	90
Africa Prepaid Services Nigeria Limited	Nigeria	10 000 000	24.01
Blue Label Ventures Proprietary Limited trading as Blue Label Accelerator	RSA	100	100
Blue Label Distribution Proprietary Limited	RSA	100	100
Blue Label One Proprietary Limited	RSA	300	100
BLT USA Inc.	USA	100	100
Budding Trade 1170 Proprietary Limited	RSA	100	100
Cellfind Proprietary Limited	RSA	1 000	100
Datacel Direct Proprietary Limited	RSA	100	100
Gold Label Investments Proprietary Limited	RSA	1 000	100
Panacea Mobile Proprietary Limited	RSA	100	100
Reware Proprietary Limited	RSA	121	50.41
Simigenix Proprietary Limited	RSA	120	100
The Prepaid Company Proprietary Limited	RSA	10 000	100
The Post Paid Company Proprietary Limited	RSA	200	100
TicketPros Proprietary Limited	RSA	250	100
Transaction Junction Proprietary Limited	RSA	120	60
Uninex Proprietary Limited	RSA	100	100
Ventury Group Proprietary Limited	RSA	2 000	100
Viamedia Proprietary Limited	RSA	3 230 000	75
Virtual Voucher Proprietary Limited	RSA	200	100
Indirectly held:			
Subsidiaries of The Prepaid Company Proprietary Limited			
Blue Label Connect Proprietary Limited	RSA	42 431	100
Robtronics Proprietary Limited	RSA	100	51
Subsidiary of Ventury Group Proprietary Limited			
Cigicell Proprietary Limited	RSA	100	74
Subsidiary of Africa Prepaid Services Proprietary Limited			
Africa Prepaid Services Nigeria Limited	Nigeria	10 000 000	51
Subsidiaries of Datacel Direct Proprietary Limited			
Blue Label Call Centre Proprietary Limited	RSA	300	100
CNS Call Centre Proprietary Limited	RSA	1 000	100
Blue Label Data Solutions Proprietary Limited	RSA	100	81
Subsidiary of Transaction Junction Proprietary Limited			
Transaction Junction (Namibia) Proprietary Limited	Namibia	100	100
Subsidiary of 2DFine Holdings Mauritius			
2DFine Investments Mauritius	Mauritius	1	100

2. Group composition continued

2.4 Interest in subsidiaries, associates and joint ventures continued

	Country	Number of issued shares	Percentage held
2017			
Subsidiaries of Blue Label Mexico S.A. de C.V.			
SGC Servicios Y Gestion Corporation S.A. de C.V.	Mexico	500	99.8
Connecta Systems LLC	USA	1 000	100
Pagacel S.A. de C.V.	Mexico	500	99.8
Transipago S.A. de C.V.	Mexico	500	99.8
Subsidiary of Viamedia Proprietary Limited			
Viadigital Proprietary Limited	RSA	120	100
Associates			
Directly held:			
Associates of Blue Label Telecoms Limited			
Lornanox Proprietary Limited	RSA	120	40
Utilities World Proprietary Limited	RSA	1 000	25.1
Indirectly held:			
Associates of Gold Label Investments Proprietary Limited			
Oxigen Services India Private Limited	India	15 664 785	41.96
Oxigen Online Services India Private Limited	India	77 010	40.96
Mpower Softcomm Private Limited	India	16 286	14.4*
Associate of 2DFine Investments Mauritius			
Mpower Softcomm Private Limited	India	16 286	14.4*
Joint ventures			
Directly held:			
Joint ventures of Blue Label Telecoms Limited			
Blue Label Mexico S.A. de C.V.	Mexico	9 200	47.56**
Prepaid24 Proprietary Limited (previously Banosign Proprietary Limited)	RSA	501	50.1**
Indirectly held:			
Joint ventures of Blue Label Data Solutions Proprietary Limited			
Datacision Proprietary Limited	RSA	100	50
United Call Centre Solutions Proprietary Limited	RSA	100	50
Joint venture of Gold Label Investments Proprietary Limited			
2DFine Holdings Mauritius	Mauritius	2	50
Joint ventures of 2DFine Investments Mauritius			
Oxigen Services India Private Limited	India	15 664 785	33.85**
Oxigen Online Services India Private Limited	India	77 010	34.42**
Joint ventures of Viamedia Proprietary Limited			
SupaPesa Africa Limited	Mauritius	100	50
Supa Pesa South Africa Proprietary Limited	RSA	200	50

* *Significant influence is demonstrated by the Company as a result of representation on the Board of Directors.*
** *Joint control is demonstrated by the composition of and decision-making powers afforded to the Board of Directors.*

2. Group composition continued

2.5 Business combinations

Acquisition of subsidiaries

	3G Mobile Proprietary Limited	Airvantage Proprietary Limited
	Supplier and distributor of mobile phones and tablets to major retailers across South Africa and sub-Saharan Africa, and financier of the mobile handset component of postpaid and hybrid contracts	Owner of system that offers mobile network operators the ability to advance airtime, data and mobile money to subscribers
Date acquired	**6 December 2017**	**2 January 2018**
% acquired	**100**	**60**
At 31 May 2018	**R'000**	**R'000**
Assets	3 373 364	54 780
Liabilities	(1 844 274)	(23 378)
Revenue since acquisition	1 387 029	36 929
Profit after tax since acquisition	125 145	1 907

	3G Mobile Proprietary Limited R'000	Airvantage Proprietary Limited R'000	Total R'000
Cash and cash equivalents	88 587	15 078	103 665
Property, plant and equipment	7 619	1 005	8 624
Intangible assets	7 798	9 425	17 223
Intangible assets arising from purchase price allocation	463 831	192 784	656 615
Investments	888	—	888
Loans receivable	—	9 847	9 847
Financial asset at fair value through profit and loss	106	—	106
Receivables	2 574 921	31 744	2 606 665
Inventories	138 806	—	138 806
Borrowings	(1 269 882)	—	(1 269 882)
Deferred tax	23 779	(960)	22 819
Deferred tax arising from purchase price allocation	(129 873)	(53 980)	(183 853)
Payables	(398 451)	(40 273)	(438 724)
Fair value of subsidiaries acquired	1 508 129	164 670	1 672 799
Non-controlling interests	—	(66 645)	(66 645)
Fair value of net assets acquired	1 508 129	98 025	1 606 154
Goodwill (refer to note 4.1)	380 979	52 707	433 686
Total purchase consideration	1 889 108	150 732	2 039 840
Fair value of previously acquired interest	(926 482)	—	(926 482)
Amount settled via loan financing obtained and directly settled to sellers on 28 February 2018 (included in interest-bearing borrowings, refer to note 3.2.2)	(718 453)*	—	(718 453)
Settled in cash	244 173	150 732	394 905
Less: Cash and cash equivalents in subsidiary	(88 587)	(15 078)	(103 665)
Cash flow on acquisition	155 586	135 654	291 240

** This is not included in the cash flow statement as it was directly settled.*

2. Group composition continued

2.5 Business combinations continued

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

	3G Mobile Proprietary Limited R'000	Airvantage Proprietary Limited R'000	Total R'000
Revenue	3 191 630	87 002	3 278 632
Net profit after tax	272 258	36 394	308 652

3G Mobile Proprietary Limited (3G Mobile) was purchased with the objective of affording the Group access to new channels for the supply and distribution of tier 1 to tier 4 mobile phones and tablets, as well as the ability to finance the mobile handset component of postpaid and hybrid contracts.

In most business acquisitions, there is a part of the cost that is not capable of being attributed in accounting terms to identifiable assets and liabilities acquired and is therefore recognised as goodwill. In the case of the acquisition of 3G Mobile, this goodwill is underpinned by a number of elements, which individually cannot be quantified. Most significant among these is the opportunities that the market presence and asset finance model afford the Group. The goodwill has been allocated to two separate cash-generating units, namely 3G Mobile Proprietary Limited and CEC Proprietary Limited (refer to note 4.1).

The fair value movement of our previously held interest in 3G Mobile, between our initial acquisition of 47.37% (refer to note 2.1) and the date of obtaining control was not significant.

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

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

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

3. Financial instruments and financial risks

Financial instruments carried on the statement of financial position include:

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

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

The Group recognises a financial asset or a financial liability on its statement of financial position when, and only when, the Group becomes a party to the contractual provisions of the instrument.

Financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs.

Subsequent recognition is dependent on how financial instruments are classified on initial recognition. IAS 39 has several categories but the Group only has financial instruments classified as loans and receivables, fair value through profit and loss and financial liabilities at amortised cost. Financial assets are only derecognised when the criteria for derecognition in IAS 39 are achieved.

Category	Measurement
Loans and receivables • Loans receivable • Trade and other receivables • Starter pack assets • Cash and cash equivalents	Amortised cost using the effective interest method with interest recognised in interest income, less any impairment losses which are recognised as part of credit impairment charges. Directly attributable transaction costs and fees received are capitalised and amortised through interest income as part of the effective interest rate.
Fair value through profit and loss • Put option liability • Bonds and liquidity support	Fair value, with gains and losses recognised in profit and loss.
Financial liabilities • Borrowings • Trade and other payables • Put option liability • Contingent purchase consideration	Amortised cost using the effective interest method with interest recognised in interest expense. Directly attributable transaction costs and fees received are capitalised and amortised through interest expense as part of the effective interest rate.

Impairment of financial assets

A financial asset is impaired if objective evidence indicates that a loss event has occurred after initial recognition which has a negative effect on the estimated future cash flows of the financial asset that can be estimated reliably. The Group assesses at each reporting date whether there is objective evidence that a financial asset which is carried at amortised cost is impaired.

When a receivable is not recoverable, it is written off against the provision. Subsequent recoveries of amounts are credited to the income statement.

3. Financial instruments and financial risks continued

Financial risks

In the course of its business, the Group is exposed to a number of financial risks: credit risk, liquidity risk and market risk (including foreign currency, interest rate and other price risks). This note presents the Group's objectives, policies and processes for managing its financial risk and capital.

Risk management is monitored and managed by key personnel of each entity in the Group on a daily basis based on their specific operational requirements.

Classes of financial instruments

	2018 R'000	Restated 2017 R'000
Financial assets		
Cash and cash equivalents	**947 888**	1 350 666
Trade and other receivables*	**5 797 528**	2 584 418**
Loans receivable	**261 069**	225 080
Financial assets at fair value through profit and loss	**168 144**	—
Loans to associates and joint ventures	**1 067 451**	19 338
Loans to venture capital associates and joint venture	**134 854**	252 615
	8 376 934	4 432 117
Financial liabilities		
Interest-bearing borrowings	**2 970 938**	—
Non-interest-bearing borrowings	**170**	18 026
Trade and other payables*	**5 030 858**	3 507 016**
Put option liability	**97 947**	—
Contingent consideration	**4 559**	32 974
Financial liabilities at fair value through profit and loss	**45 360**	—
	8 149 832	3 558 016
Net financial position	**227 102**	874 101

* *Trade and other receivables and trade and other payables exclude non-financial instruments.*
** *Restated for the effects of the reversal of financing components included in sale and purchase transactions.*

Credit risk

Credit risk arises because a counterparty may fail to meet its obligations to the Group. The Group is exposed to credit risk on financial assets mainly in respect of trade receivables, loan receivables, cash and cash equivalents and financial assets at fair value through profit and loss. Refer to note 2.1 for credit risk on associates and joint ventures.

Trade receivables

Trade receivables consist primarily of invoiced amounts from normal trading activities. The Group has a diversified customer base and policies are in place to ensure sales are made to customers with an appropriate credit history and payment history. Individual credit limits are set for each customer and the utilisation of these credit limits is monitored regularly. Customers cannot exceed their set credit limit, without specific Senior Management approval. Such approval is assessed and granted on a case-by-case basis. Management regularly reviews the debtors age analysis and follows up on long-outstanding debtors. Where necessary, a provision for impairment is made. A portion of the Group's customer base is made up of major retailers and wholesalers with the balance of the customer base being widely dispersed.

During the period, the Group identified a significant increase in the credit risk of one of its major wholesale customers. This was not as a result of the customer failing to pay amounts as they became due and payable, but rather as a result of other external factors that have affected them. As a result of this, the Group performed a detailed impairment calculation to determine if an impairment of the trade and other receivables balance from this customer was required. This included an analysis of the root cause of the increase in credit risk of the customer. Through discussions with the customer, management has prepared detailed budgets and projections of the likely scenarios that the customer will embark upon to mitigate the root cause of the increase in their credit risk. Management has considered the customer's business plan and the likelihood of the various scenarios and determined that, at the reporting period, there is no impairment required to this balance. The Group's maximum gross exposure to credit risk of this counterparty amounted to R567 million at 31 May 2018. However, the Group has collateral in place that would mitigate this risk, with a result that the net maximum exposure, albeit highly unlikely, to this customer is R292 million at 31 May 2018.

3. Financial instruments and financial risks continued

Starter packs

The risk of starter pack receivables is assessed as low due to the fact that annuity income through activation and ongoing revenue is utilised in the settlement of the receivable balances. These receivables are recoverable within a period which may exceed 12 months.

Loans receivable

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

Cash and cash equivalents

The Group places cash and cash equivalents with major banking groups and quality institutions that have high credit ratings.

The Group has significant concentrations of credit risk with Investec Bank Limited in line with its treasury function. Investec Bank Limited has a credit rating of BB based on the latest S&P Global Ratings local currency long-term issuer default ratings.

The Group's maximum credit risk exposure is the carrying amount of all financial assets on the statement of financial position and sureties provided with the maximum amount the Group could have to pay if the sureties are called on, amounting to R415 million (2017: R85.5 million). The Group holds collateral in the form of sureties in respect of a portion of the loan receivable from 2DFine Holdings Mauritius (refer to note 3.1.1).

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss consist primarily of bonds issued by Cedar Cellular Investments 1 Proprietary Limited, from Saudi Oger Limited. The Group has assigned 50% of its rights and obligations in respect of the bond notes, which assignment has been accepted by the assignee. Refer to note 3.3 for credit risk on the bonds.

Liquidity risk

Liquidity risk arises when a company encounters difficulties in meeting commitments associated with liabilities and other payment obligations. The Group's objective is to maintain prudent liquidity risk management by maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by keeping committed credit lines available. Cash flow forecasting is performed in the operating entities of the Group to ensure sufficient cash to meet operational needs while maintaining sufficient headroom to ensure that borrowing limits (where applicable) are not breached.

Surplus cash held by the operating entities over and above the balance required for working capital management is transferred to the Group treasury. Group treasury invests surplus cash in interest-bearing accounts, identifying instruments with sufficient liquidity to provide adequate headroom as determined by the above mentioned forecasts.

The Group has a working capital loan facility with Investec Bank Limited of R2.050 billion (2017: R1.5 billion). Drawdowns were made during the year, and the utilised portion of the facility at year-end amounted to R690 million (2017: Rnil).

The Group has a stock loan facility with Investec Bank Limited of R500 million (2017: Rnil). The facility was unutilised at year-end. Drawdowns were made and fully repaid during the year.

The facility bears certain debt covenants. The Group has not been in breach in respect of these covenants. The Group has pledged certain securities in respect of this facility. Refer to notes 3.1.2, 3.3 and 4.4.

The Group has a financing facility with Rand Merchant Bank Limited and Investec Bank of R1.92 billion. This facility is restricted for use by the 3G Mobile Group. Drawdowns were made during the year and the utilised portion of the facility at year-end amounted to R1.514 billion.

The shares in 3G Mobile and its subsidiaries have been pledged as security for these facilities. Blue Label Telecoms and The Prepaid Company have issued guarantees for this facility. The guarantees are included in the sureties detailed above.

3. Financial instruments and financial risks continued

Liquidity risk continued

The terms of these Group facilities are as follows:

Facility	Borrower	Investec	Rand Merchant Bank	Value R'000	Interest rate	Interest period	Repayment date
Senior facility A	3G Mobile Proprietary Limited	50%	50%	**858 152**	3 month JIBAR plus 3.85%	Quarterly	31 August 2020
Senior facility B	3G Mobile Proprietary Limited	50%	50%	**650 000**	Prime plus 0.35%	Monthly	31 August 2020
Mezzanine facility	3G Mobile Proprietary Limited	100%	—	**410 532**	Prime plus 1.5%	Monthly	31 August 2020
Facility A	The Prepaid Company Proprietary Limited	100%	—	**1 500 000**	Prime minus 0.5%	Monthly	30 September 2018**
Facility B	The Prepaid Company Proprietary Limited	100%	—	**550 000**	Prime	Monthly	30 September 2019
Stock facility	The Prepaid Company Proprietary Limited	100%	—	**500 000**	Prime	Monthly	5 September 2018
				4 468 684			

*** The Group is in the process of negotiating the renewal of this facility.*

The Company and a subsidiary company issued a cross surety in respect of an overdraft facility in the amount of R19.85 million (2017: R19.85 million) in favour of FNB, a division of First National Bank Limited (FNB). This facility was unutilised as at 31 May 2018. In addition, the Company and four of its subsidiaries issued a cross surety in the amount of R1.3 million in respect of credit card facilities granted by FNB.

Guarantees to the value of R614.4 million (2017: R319.4 million) are issued by the Group's bankers in favour of suppliers on behalf of the Group. The Group does not have access to this cash while amounts owing to suppliers are outstanding.

A guarantee to the value of R37.8 million (2017: R19.7 million) has been issued by the Group's bankers in favour of RBL Bank on behalf of the Group. The Group does not have access to this cash while the guarantee is in place.

Maturity of financial liabilities

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date.

The amounts disclosed in the table are the contractual undiscounted cash flows.

			Payable in:		
	Less than one month or on demand R'000	More than one month but not exceeding one year R'000	More than one year but not exceeding two years R'000	More than two years but not exceeding five years R'000	More than five years R'000
2018					
Interest-bearing borrowings	**715 831**	**923 199**	**163 497**	**1 555 238**	**—**
Non-interest-bearing borrowings	**174**	**—**	**—**	**—**	**—**
Trade and other payables*	**3 357 549**	**1 673 571**	**96**	**—**	**—**
Put option liability	**—**	**108 203**	**—**	**—**	**—**
Financial liability at fair value through profit and loss (refer to note 3.3)	**—**	**302 318**	**251 932**	**—**	
Contingent consideration	**—**	**4 744**	**—**	**—**	**—**
Total	**4 073 554**	**3 012 035**	**415 525**	**1 555 238**	**—**
2017					
Interest-bearing borrowings	—	—	—	—	—
Non-interest-bearing borrowings	6 676	11 350	—	—	—
Trade and other payables*	2 280 680	1 223 630	3 911	—	—
Contingent consideration	2 588	26 303	4 900	—	—
Total	2 289 944	1 261 283	8 811	—	—

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

3. Financial instruments and financial risks continued

3.1 Financial assets

3.1.1 Loans receivable

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are included in current assets, except for maturities greater than 12 months after the statement of financial position date, which are classified as non-current assets.

	2018 R'000	Restated 2017 R'000
Interest-free loans	**146 097**	121 609
Interest-free surety loans	**55 005**	—
Interest-bearing loans receivable	**59 967**	103 471
	261 069	225 080
Less: Amounts included in current portion of loans receivable	**(207 799)**	(188 229)
	53 270	36 851

Surety loans relate to the personal sureties that B Levy and M Levy signed for the loan owed by 2DFine Holdings Mauritius to Gold Label Investments Proprietary Limited. Their liability is limited to the difference between the loan owing to Gold Label Investments Proprietary Limited and the value of 16.95% of the shares in Oxigen Services India Private Limited (Oxigen Services) and 17.29% of the shares in Oxigen Online Services India Private Limited (Oxigen Online). In the current year this loan was partially impaired due to a decrease in the fair value of Oxigen Services and Oxigen Online resulting in the Group recognising a receivable on the potential surety claim.

All loans receivable are unsecured and repayable within five years. Interest-bearing loans bear interest at a range of between 7.3% and prime plus 2%.

The loans receivable are neither past due nor impaired with a low risk of default. Of this amount, R20 million (2017: R26 million) relates to loans receivable from related parties, all of which are interest-free (refer to note 8).

The Group considers its maximum exposure in respect of loans receivable, without taking into account any collateral and financial guarantees, to be as follows:

	2018 R'000	2017 R'000
Group 1	**38 040**	—
Group 2	**223 029**	224 861
Group 3	**—**	219
	261 069	225 080

The rating groups for counterparties are categorised as follows:
Group 1 – New customers/related parties (less than six months).
Group 2 – Existing customers/related parties (more than six months) with no defaults in the past.
Group 3 – Existing customers/related parties (more than six months) with some defaults in the past.

All defaults were fully recovered or are in the process of being recovered.

3. Financial instruments and financial risks continued

3.1 Financial assets continued

3.1.2 Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection is expected in the normal operating cycle of the business, they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in the income statement.

	2018 R'000	Restated 2017 R'000
Trade receivables	**2 843 005**	2 472 099
Less: Provision for impairment	**(47 908)**	(19 020)
	2 795 097	2 453 079
Sundry debtors	**229 330**	98 521
Prepayments[1]	**89 048**	175 955
VAT	**73 414**	52 646
Receivables from related parties (refer to note 8)	**2 716 895**	28 421
	5 903 784	2 808 622
Less: Amounts included in current portion of trade and other receivables[2]	**(5 529 877)**	(2 766 110)
	373 907	42 512

[1] Included in the amount above are prepayments to customers of R47 million (2017: R89 million).
[2] Included in the amount above are starter pack debtors that have a normal operating cycle period which may be in excess of 12 months.

Performance of trade debtors and receivables from related parties is assessed to be as follows:

	Gross R'000	**Impairment R'000**	**Net R'000**
31 May 2018			
Fully performing	**5 335 596**	**(3 250)**	**5 332 346**
Past due by one to 30 days	**78 445**	**—**	**78 445**
Past due by 31 to 60 days	**44 550**	**(7 654)**	**36 896**
Past due by 61 to 90 days	**19 738**	**(2 006)**	**17 732**
Past due by more than 90 days	**83 822**	**(34 998)**	**48 824**
	5 562 151	**(47 908)**	**5 514 243**
31 May 2017 Restated			
Fully performing	2 438 595	—	2 438 595
Past due by one to 30 days	20 341	(4 681)	15 660
Past due by 31 to 60 days	7 408	(32)	7 376
Past due by 61 to 90 days	2 938	(190)	2 748
Past due by more than 90 days	32 443	(14 117)	18 326
	2 501 725	(19 020)	2 482 705

Receivables in respect of starter pack debtors are included in fully performing debtors above.

3. Financial instruments and financial risks continued

3.1 Financial assets continued

3.1.2 Trade and other receivables continued

The Group holds guarantees to the value of R30 million (2017: R30 million) and further insurance cover to the value of R245 million (2017: R245 million) over trade receivable balances with a specific customer. All insured values exclude VAT.

The trade receivables that are neither past due nor impaired relate to independent customers for whom there is no recent history of default.

Sundry debtors are considered to be fully performing.

	2018 R'000	Restated 2017 R'000
Provision for impairment of receivables		
Balance at the beginning of the year	**19 020**	13 850
Acquisition of subsidiary	**10 173**	—
Allowances made during the year	**23 808**	20 811
Amounts utilised and reversal of unutilised amounts	**(5 093)**	(15 641)
At 31 May	**47 908**	19 020
There is a cession of trade receivables (including intergroup balances) of R3.210 billion (2017: R2.330 billion) in favour of Investec Bank Limited as security for facilities referred to in note 3.		
The Group considers its maximum exposure in respect of trade receivables which have not been impaired, without taking into account any collateral and financial guarantees, to be as follows:		
Counterparties with external credit rating		
Credit rating based on latest S&P Global Ratings local currency long-term issuer default ratings		
BBB+	**10 347**	17 812
BBB	**31 803**	28 518
BB+	**26**	—
CCC+	**1 079 977**	814
	1 122 153	47 144
Counterparties without external credit rating		
Group 1	**30 479**	9 232
Group 2	**4 269 102**	2 413 134
Group 3	**92 509**	13 195
Total unimpaired trade receivables	**4 392 090**	2 435 561

The effect of discounting of the trade receivables is not taken into account in the table above.

The rating groups for counterparties are categorised as follows:
Group 1 – New customers/related parties (less than six months).
Group 2 – Existing customers/related parties (more than six months) with no defaults in the past.
Group 3 – Existing customers/related parties (more than six months) with some defaults in the past.

All defaults were fully recovered or are in the process of being recovered.

Trade receivables, included in group 2 above, amounting to R1.552 billion have been guaranteed by parties with a CCC+ rating.

3. Financial instruments and financial risks continued

3.1 Financial assets continued

3.1.3 Cash and cash equivalents

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

	2018 R'000	2017 R'000
Cash at bank	**947 546**	1 350 553
Cash on hand	**342**	113
	947 888	1 350 666
Included in this balance is restricted cash of R8.4 million (2017: R29.1 million), received on behalf of and immediately due to third parties, that may not be utilised in the Group's ordinary course of business.		
Cash at bank and short-term bank deposits		
Credit rating based on latest S&P Global Ratings local currency long-term issuer default ratings		
AA+	**82 467**	—
A+	**—**	258
BB+	**59 541**	1 350 262
BB	**656 680**	—
B+	**144 848**	—
Other	**4 010**	33
	947 546	1 350 553

3.2 Financial liabilities

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Refer to accounting policies on borrowings and trade and other payables for financial liabilities (which exclude employee-related liabilities and VAT), and share capital for equity instruments issued by the Group.

3. Financial instruments and financial risks continued

3.2 Financial liabilities continued

3.2.1 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within the normal operating cycle of the business. If not, they are presented as non-current liabilities.

	2018 R'000	Restated 2017 R'000
Trade payables	**2 990 561**	3 178 577
Accruals	**133 589**	138 428
Employee benefits	**79 045**	71 458
Sundry creditors	**149 659**	88 189
Put option liability	**97 947**	—
Deferred revenue	**624**	2 786
Contingent consideration	**4 559**	32 974
VAT	**11 014**	19 332
Payables to related parties (refer to note 8)	**1 621 748**	12 035
	5 088 746	3 543 779
Less: Amounts included in current portion of trade and other payables	**(5 086 196)**	(3 537 505)
	2 550	6 274

Fair value estimation

Fair value measurement hierarchy:

- Level 1: fair value based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: fair value based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); or
- Level 3: fair value based on inputs for the asset or liability that are not based on observable market data (that is, observable inputs).

Contingent consideration

Changes in level 3 instruments are as follows:

	2018 R'000	2017 R'000
Opening balance	**32 974**	83 563
Acquisition of Reware Proprietary Limited	**—**	1 150
Acquisition of Utilities World Proprietary Limited	**—**	4 516
Settlements	**(27 867)**	(50 666)
Gains or losses recognised in profit or loss	**(548)**	(5 589)
Closing balance	**4 559**	32 974
Total (gains)/losses for the period included in profit or loss for liabilities held at the end of the reporting period, under:		
Other income	**(1 390)**	(10 210)
Interest paid	**590**	4 621
Unrealised (gains)/losses recognised in profit or loss for liabilities held at the end of the reporting period	**800**	5 304

The closing balance includes R1.9 million relating to SupaPesa Africa Limited and R2.6 million relating to Panacea Proprietary Limited.

3. Financial instruments and financial risks continued

3.2 Financial liabilities continued

3.2.1 Trade and other payables continued

Acquisition of SupaPesa Africa Limited

The fair value of the contingent consideration arrangement of R29.9 million was originally estimated by applying the income approach. The fair value estimates are based on a discount rate of 9.25%. For all profit targets management has assumed a probability of 100% initially. In determining these probabilities management has assessed the cash flow projections based on financial budgets for the forthcoming three years which are based on assumptions of the business, industry and economic growth.

In the prior year management reassessed the cash flows taking into account the profit targets and the probability of meeting these as well as the forecast financial budget. The probabilities have been adjusted downwards from 100% to between 13% and 28%. This resulted in a release of R5.5 million into the income statement, included in other income.

In the current year management reassessed the cash flows taking into account the profit targets and the probability of meeting these as well as the forecast financial budget. The probabilities have been adjusted downwards from between 13% and 28% to 2%. This resulted in a release of R1.4 million into the income statement, included in other income.

Put option liability

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

Changes in level 3 instruments are as follows:

	2018 R'000	2017 R'000
Opening balance	**—**	—
Acquisition of Airvantage Proprietary Limited	**93 966**	—
Remeasurements recognised in the income statement	**3 981**	—
Closing balance	**97 947**	—

This relates to a put option that the Group has on the remaining 40% shareholding in Airvantage Proprietary Limited. This is exercisable within the next 12 months. The Group will settle this from available cash resources. The option is valued based on the forecast net profit after tax for 12 months ending 28 February 2019 at a six multiple, present valued to the date of the acquisition 2 January 2018, as per the contract.

Sensitivity analysis

Increase/(decrease) in put option liabilities and loss/(gain) in the income statement	**2018 R'000**
1% increase in discount rate, 10% decrease in net profit after tax	**(10 664)**
1% decrease in discount rate, 10% increase in net profit after tax	**10 869**

3.2.2 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, when the relevant contracts are entered into. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method.

Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expired.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after year-end.

3. Financial instruments and financial risks continued

3.2 Financial liabilities continued

3.2.2 Borrowings continued

	2018 R'000	2017 R'000
Interest-bearing borrowings	**2 970 938**	—
Non-interest-bearing borrowings	**170**	18 026
	2 971 108	18 026
Less: Amounts included in current portion of borrowings	**(1 456 968)**	(18 026)
	1 514 140	—

The table below details the facilities drawn upon at 31 May 2018. For terms of theses facilities, refer to note 3.

			Facility utilised	
Facility	**Investec**	**Rand Merchant Bank**	**2018 R'000**	2017 R'000
Senior facility A	50%	50%	**858 735**	—
Senior facility B	50%	50%	**244 873**	—
Mezzanine facility	100%	—	**410 532**	—
Facility A	100%	—	**690 067**	—
			2 204 207	—

Also included in interest-bearing borrowings are loans, totalling R764 million and bearing interest of 15% per annum. The Group did not default on any loans or breach any terms of the underlying agreements during the period.

Non-interest-bearing borrowings are unsecured and are repayable on demand. Included in total borrowings is Rnil (2017: R4.7 million) owing to related parties.

Market risk

Market risk is the risk that changes in market prices (interest rate and currency risk) will affect the Group's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group is exposed to risks from movements in foreign exchange rates and interest rates that affect its assets, liabilities and anticipated future transactions. The Group is not exposed to significant levels of price risk.

Cash flow and fair value interest rate risk

The Group's cash flow interest rate risk arises from loans receivable, cash and cash equivalents, and borrowings carrying interest at variable rates. The Group is not exposed to fair value interest rate risk as the Group does not have any fixed interest-bearing instruments carried at fair value other than the instruments detailed in note 3.3 where the fair value risk of these instruments is detailed.

As part of the process of managing the Group's exposure to interest rate risk, interest rate characteristics of new borrowings and the refinancing of existing borrowings are positioned according to expected movements in interest rates.

Foreign currency risk

The Group is exposed to foreign currency risk from transactions and translations. Transaction exposure arises because affiliated companies undertake transactions in currencies other than their functional currency. Translation exposure arises where affiliated companies have a functional currency other than the rand.

The Group manages its exposure to foreign currency risk by ensuring that the net foreign currency exposure remains within acceptable levels. Hedging instruments may be used in certain instances to reduce risks arising from foreign currency fluctuations.

IFRS 7 – Sensitivity analysis

The Group has used a sensitivity analysis technique that measures the estimated change to the income statement of either an instantaneous increase or decrease of 1% (100 basis points) in market interest rates or a 10% strengthening or weakening of the rand against all other currencies, from the rates applicable at 31 May 2018, for each class of financial instrument with all other variables remaining constant. This analysis is for illustrative purposes only, as in practice market rates rarely change in isolation.

3. Financial instruments and financial risks continued

3.2 Financial liabilities continued

3.2.2 Borrowings continued

Interest rate sensitivity

The interest rate sensitivity analysis is based on the following assumptions:

- Changes in market interest rates affect the interest income or expense of variable interest financial instruments;
- Changes in market interest rates only affect interest income or expense in relation to financial instruments with fixed interest rates if these are recognised at fair value; and
- Under these assumptions, a 1% increase or decrease in market interest rates at 31 May 2018 would decrease or increase profit before tax by R9.9 million.

Foreign currency sensitivity

Financial instruments by currency

2018

Financial assets	ZAR R'000	USD R'000	MUR R'000	NAD R'000	EUR R'000	BWP R'000	ZMW R'000	Total R'000
Cash and cash equivalents	929 514	399	2 899	10 060	4 539	1	476	947 888
Trade and other receivables*	5 661 762	54	50 070	27 692	23 251	36 950	—	5 799 779
Loans receivable	206 064	55 005	—	—	—	—	—	261 069
Financial asset at fair value through profit and loss	168 144	—	—	—	—	—	—	168 144
Loans to associates and joint ventures	1 067 451	—	—	—	—	—	—	1 067 451
Loans to venture capital associates and joint venture	—	134 854	—	—	—	—	—	134 854
	8 032 935	190 312	52 969	37 752	27 790	36 951	476	8 379 185
Financial liabilities								
Interest-bearing borrowings	2 970 601	—	337	—	—	—	—	2 970 938
Non-interest-bearing borrowings	170	—	—	—	—	—	—	170
Trade and other payables*	4 987 639	16 016	826	23 658	681	892	1 689	5 031 401
Put option liability	97 947	—	—	—	—	—	—	97 947
Contingent consideration	4 559	—	—	—	—	—	—	4 559
Financial liability at fair value through profit and loss	45 360	—	—	—	—	—	—	45 360
	8 106 276	16 016	1 163	23 658	681	892	1 689	8 150 375
Net financial position	(73 341)	174 296	51 806	14 094	27 109	36 059	(1 213)	228 810
2017 Restated								
Financial assets								
Cash and cash equivalents	1 348 845	290	—	—	1 531	—	—	1 350 666
Trade and other receivables*	2 577 264	5 245	—	—	3 067	—	—	2 585 576
Loans receivable	225 080	—	—	—	—	—	—	225 080
Loans to associates and joint ventures	19 338	—	—	—	—	—	—	19 338
Loans to venture capital associates and joint venture	—	252 615	—	—	—	—	—	252 615
	4 170 527	258 150	—	—	4 598	—	—	4 433 275
Financial liabilities								
Interest-bearing borrowings	—	—	—	—	—	—	—	—
Non-interest-bearing borrowings	18 026	—	—	—	—	—	—	18 026
Trade and other payables*	3 505 364	393	—	—	2 464	—	—	3 508 221
Contingent consideration	32 974	—	—	—	—	—	—	32 974
	3 556 364	393	—	—	2 464	—	—	3 559 221
Net financial position	614 163	257 757	—	—	2 134	—	—	874 054

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

3. Financial instruments and financial risks continued

3.2 Financial liabilities continued

3.2.2 Borrowings continued

Foreign currency sensitivity continued

Financial instruments by currency continued

With a 10% strengthening or weakening in the rand against the following currency:

	USD R'000	MUR R'000	NAD R'000	EUR R'000	BWP R'000	ZMW R'000
Profit before tax would have increased/(decreased) by:	17 430	5 181	1 409	2 711	3 606	(121)

In the current year the Group incurred a foreign exchange loss of R19.6 million (2017: R52.2 million profit) mainly as a result of the Group's USD exposure.

Capital risk

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust this capital structure, the Company may issue new shares, adjust the amount of dividends paid to shareholders, return capital to shareholders or sell assets to reduce debt. The Group defines capital as capital and reserves and non-current borrowings. The Group is not subject to externally imposed capital requirements.

There were no changes to the Group's approach to capital management during the year.

3.3 Financial asset at fair value through profit and loss

	Bond notes R'000	Liquidity support R'000	Other R'000	Total
Opening balance	**—**	**—**	**—**	**—**
Acquisition of subsidiary	**—**	**—**	**106**	**106**
Additions	**117 037**	**—**	**—**	**117 037**
Fair value gain/(loss) recognised in profit or loss	**50 482**	**(45 360)**	**519**	**5 641**
Closing balance	**167 519**	**(45 360)**	**625**	**122 784**
Financial assets at fair value through profit and loss	**167 519**	**—**	**625**	**168 144**
Financial liabilities at fair value through profit and loss	**—**	**(45 360)**	**—**	**(45 360)**
Closing balance	**167 519**	**(45 360)**	**625**	**122 784**

Bond notes

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

Liquidity support

As part of the restructure of the debt into Cell C by third-party lenders, The Prepaid Company will be required to provide liquidity support to Magnolia Cellular Investment 2 (RF) Proprietary Limited (SPV2), which is 100% held by 3C Telecommunications Proprietary Limited, of up to USD80 million, which liquidity support will be provided over 24 months and will be in the form of subordinated funding to SPV2. Oger Telecoms contributed USD36 million of the aforesaid USD80 million thus reducing The Prepaid Company's obligation in this regard to a maximum of USD44 million. As at 31 May 2018, the Group has not paid any amounts to SPV2.

3. Financial instruments and financial risks continued

3.3 Financial asset at fair value through profit and loss continued

Fair value estimate

SPV1 and SPV2 own 11.8% and 16% of the shares issued by Cell C Limited respectively. No other assets are held by these entities, and as such the Group's bond note and liquidity support arrangements will be settled only when the value of the Cell C shares are realised by SPV1 and SPV2. The substance of these arrangements are therefore derivatives exposing the Group to the share price of Cell C. Blue Label has a further revisionary pledge amounting to 5% of the shares issued by Cell C relating to the Group's exposure in SPV2.

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

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

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

The breakeven valuation of Cell C is R18.60 billion, which represents the minimum valuation of Cell C required before a collective fair value loss would be recognised on the derivatives. The following table represents the sensitivity of the valuation of Cell C Limited used in the Monte Carlo simulations to value the derivatives:

Unobservable input	Change to inputs %	Movement in fair value of SPV1 R'000	Movement in fair value of SPV2 R'000	Total movement in fair value R'000
Valuation of Cell C	5	7 968	61 267	69 235
	(5)	(8 211)	(59 975)	(68 186)

4. Non-financial instruments

Non-financial instruments comprise:
- Goodwill
- Intangible assets
- Property, plant and equipment
- Inventories
- Provisions

Impairment of non-financial assets

The Group evaluates the carrying value of assets with finite useful lives when events and circumstances indicate that the carrying value may not be recoverable and when there are indicators of impairment. Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment.

An impairment loss is recognised in the income statement when the carrying amount of an asset exceeds its recoverable amount. An asset's recoverable amount is the higher of the fair value less cost of disposal (the amount obtainable from the sale of an asset in an arm's-length transaction between knowledgeable willing parties), or its value-in-use. Value-in-use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. The estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

An impairment loss recognised for an asset, other than goodwill, in prior years is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised and the recoverable amount exceeds the new carrying amount. The reversal of the impairment is limited to the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior years. The reversal of such an impairment loss is recognised in the income statement in the same line item as the original impairment charge.

4.1 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is attributable to synergies that the Group expects to derive from the transaction. If the cost of acquisition is less than the net assets of the subsidiary acquired, the difference is recognised directly in the income statement. Goodwill on the acquisition of subsidiaries is included in "goodwill" in the statement of financial position. Goodwill on acquisitions of associates and joint ventures is included in "investments in and loans to associates and joint ventures".

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment is recognised.

Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

4. Non-financial instruments continued

4.1 Goodwill continued

Critical accounting estimates and assumptions

Assessment of goodwill for impairment

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

	2018 R'000	2017 R'000
Year ended 31 May		
Opening carrying amount	**604 590**	603 440
Acquisition of subsidiary	**433 686**	1 150
FCTR on goodwill	**(2 033)**	—
Closing carrying amount	**1 036 243**	604 590
At 31 May		
Cost	**1 048 371**	616 718
Accumulated impairments	**(12 128)**	(12 128)
Carrying amount	**1 036 243**	604 590

The carrying amount of goodwill and intangible assets was reduced to their recoverable amounts through recognition of an impairment loss when required 2018: nil (2017: nil).

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

	2018 R'000	2017 R'000
Blue Label Distribution Proprietary Limited	**36 364**	36 364
Cellfind Proprietary Limited	**21 406**	21 406
Viamedia Proprietary Limited	**185 967**	185 967
Blue Label Connect Proprietary Limited	**205 749**	205 749
3G Mobile Proprietary Limited	**43 478**	—
CEC Proprietary Limited	**335 468**	—
Airvantage Proprietary Limited	**52 707**	—
The Prepaid Company Proprietary Limited	**62 113**	62 113
Panacea Mobile Proprietary Limited	**6 883**	6 883
TicketPros Proprietary Limited	**5 104**	5 104
Reware Proprietary Limited	**1 150**	1 150
Datacel Group	**79 854**	79 854
	1 036 243	604 590

4. Non-financial instruments continued

4.1 Goodwill continued

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

The recoverable amount has been determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by the Board of Directors for the forthcoming year and forecasts for up to five years which are based on assumptions of the business, industry and economic growth. Cash flows beyond this period are extrapolated using terminal growth rates, which do not exceed the expected long-term economic growth rate.

The key assumptions used for the value-in-use calculations are as follows:

	2018		2017	
	Terminal growth rate %	**Discount rate %**	Terminal growth rate %	Discount rate* %
Blue Label Distribution Proprietary Limited	**4.2**	**20.5**	4.2	18.2
Cellfind Proprietary Limited	**4.0**	**19.4**	4.0	17.8
Viamedia Proprietary Limited	**4.0**	**18.3**	4.0	20.1
Blue Label Connect Proprietary Limited	**4.2**	**19.7**	4.2	19.2
3G Mobile Proprietary Limited	**5.5**	**20.4**	—	—
CEC Proprietary Limited	**5.5**	**19.3**	—	—
Airvantage Proprietary Limited	**4.0**	**19.7**	—	—
The Prepaid Company Proprietary Limited	**4.2**	**15.2**	4.5	15.5
Panacea Mobile Proprietary Limited	**4.0**	**18.9**	4.0	24.1
TicketPros Proprietary Limited	**4.2**	**19.0**	4.2	18.5
Reware Proprietary Limited	**4.2**	**18.7**	4.2	21.3
Datacel Group	**2.5**	**26.9**	2.5	27.0

** The 2017 rates have been updated to represent a pre-tax WACC rate. In addition, an error was identified in some inputs. These have also been updated. No impairment was required under the new rates.*

The discount rates used are pre-tax and reflect specific risks relating to the relevant companies. The growth rate is used to extrapolate cash flows beyond the budget period. The growth rates were consistent with publicly available information relating to long-term average growth rates for each of the markets in which the cash-generating units operate.

For all goodwill balances, except the goodwill balances mentioned below, if one or more of the inputs were changed to a reasonable possible alternative assumption, there would be no impairments that would have to be recognised.

The discount rate used when calculating the value-in-use calculations would need to be increased by the following amounts before any impairments would need to be recognised:

	Increase in discount rate %	**Decrease in terminal growth rate %**	**Excess over carrying value R'000**
Blue Label Connect Proprietary Limited	0.9	1.4	24 604
3G Mobile Proprietary Limited	0.6	0.8	21 265
CEC Proprietary Limited	0.6	0.8	23 554

The goodwill balances did not result in impairment charges for the year when compared to recoverable amounts (2017: nil).

4. Non-financial instruments continued

4.2 Intangible assets

(a) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Computer software has a finite useful life and is subsequently carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of the computer software over its estimated useful life (three to 10 years).

Costs associated with the maintenance of existing computer software programmes are expensed as incurred.

(b) Trademarks and franchise fees

Trademarks and franchise fees are shown at historical cost. They have a finite useful life and are subsequently carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and franchise fees over their estimated useful lives (10 years and 20 years respectively). Trademarks and franchise fees are initially shown at fair value as determined in accordance with IFRS 3 – *Business Combinations*, and are subsequently carried at the initially determined fair value less accumulated amortisation and impairment losses.

(c) Databases, customer listings, distribution agreements and customer relationships

Databases, customer listings, distribution agreements and customer relationships acquired through business combinations are initially shown at fair value as determined in accordance with IFRS 3 – *Business Combinations*, and are subsequently carried at the initially determined fair value less accumulated amortisation and impairment losses.

Amortisation is calculated using the straight-line method to allocate the value of these assets over their estimated useful lives (three to 10 years).

Distribution agreements purchased are initially shown at cost, and are subsequently carried at the initial cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the value of these assets over their estimated useful lives (10 years).

(d) Internally generated software development

Costs incurred on development projects are recognised as intangible assets when the following criteria are fulfilled:
- it is technically feasible to complete the intangible asset and that it will be available for use or sale;
- management intends to complete the intangible asset and use or sell it;
- there is an ability to use or sell the intangible asset;
- it can be demonstrated how the intangible asset will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- the expenditure attributable to the intangible asset during its development can be reliably measured.

Research expenditure is recognised as an expense as incurred. Other development expenditures that do not meet these criteria are recognised as an expense as incurred.

Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised internally generated software development costs are recorded as intangible assets and amortised from the point at which the asset is available for use (i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management) on a straight-line basis over its useful life (five to 10 years). Direct costs include the product development employee costs and an appropriate portion of relevant overheads. Costs associated with the maintenance of existing products are expensed as incurred.

(e) Purchased starter pack bases and postpaid bases

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

Purchased starter pack bases are initially recognised at the cost to the Group. Starter pack bases have a finite life and are subsequently carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over their estimated useful lives (10 years).

Purchased postpaid bases represent the right to earn revenue from the cellular network in respect of contracts forming part of the acquired base. Postpaid bases have a finite life and are subsequently carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over their estimated useful lives (10 years).

Critical accounting estimates and assumptions

Purchased starter pack bases and postpaid starter pack bases

The relative size of the Group's purchased starter pack bases and postpaid starter pack bases makes the judgements surrounding the estimated useful lives and residual values critical to the Group's financial position and performance. Useful lives are reviewed on an annual basis with the effects of any changes in estimate accounted for on a prospective basis. The residual values of these assets are assumed to be zero. The current useful life of these bases is estimated to be 10 years, based on management's estimates and taking into account historical experience as well as future events which may impact the useful lives.

4. Non-financial instruments continued

4.2 Intangible assets continued

	Customer listing R'000	Distribution agreement R'000
Year ended 31 May 2018		
Opening carrying amount	**164**	**214 215**
Additions	**—**	**—**
Acquisition of subsidiaries	**—**	**541 247**
Amortisation charge	**(155)**	**(52 858)**
Impairments	**—**	**—**
Translation difference	**—**	**—**
Closing carrying amount	**9**	**702 604**
At 31 May 2018		
Cost	**33 306**	**858 698**
Accumulated amortisation	**(33 297)**	**(154 216)**
Accumulated impairments	**—**	**(1 878)**
Carrying amount	**9**	**702 604**
Year ended 31 May 2017		
Opening carrying amount	594	242 975
Additions	—	—
Disposals	—	—
Amortisation charge	(430)	(28 760)
Impairment charges	—	—
Closing carrying amount	164	214 215
At 31 May 2017		
Cost	33 306	317 451
Accumulated amortisation	(33 142)	(101 358)
Accumulated impairments	—	(1 878)
Carrying amount	164	214 215

* *Included in the amortisation charge is an amount of R33.5 million (2017: R74.9 million) in respect of the purchased starter pack bases and postpaid bases, which is charged to the changes in inventories of finished goods line in the income statement.*

Computer software R'000	Internally generated software development R'000	Franchise fees R'000	Customer relationships R'000	Purchased starter pack bases and postpaid bases R'000	Total R'000
61 505	**46 247**	**815**	**—**	**188 218**	**511 164**
16 396	**14 787**	**—**	**—**	**—**	**31 183**
27 732	**7 491**	**—**	**97 368**	**—**	**673 838**
(30 915)	**(16 391)**	**(120)**	**(5 036)**	**(33 497)***	**(138 972)**
(338)	**—**	**—**	**—**	**—**	**(338)**
(4)	**—**	**—**	**—**	**—**	**(4)**
74 376	**52 134**	**695**	**92 332**	**154 721**	**1 076 871**
183 620	**125 884**	**3 118**	**228 391**	**579 564**	**2 012 581**
(108 547)	**(59 161)**	**(2 423)**	**(135 444)**	**(424 843)**	**(917 931)**
(697)	**(14 589)**	**—**	**(615)**	**—**	**(17 779)**
74 376	**52 134**	**695**	**92 332**	**154 721**	**1 076 871**
57 212	38 040	935	—	258 577	598 333
28 827	22 577	—	—	4 583	55 987
(47)	—	—	—	—	(47)
(24 487)	(14 370)	(120)	—	(74 942)	(143 109)
—	—	—	—	—	—
61 505	46 247	815	—	188 218	511 164
148 913	103 606	3 118	131 023	579 564	1 323 816
(87 049)	(42 770)	(2 303)	(130 408)	(391 346)	(795 211)
(359)	(14 589)	—	(615)	—	(17 441)
61 505	46 247	815	—	188 218	511 164

4. Non-financial instruments continued

4.3 Property, plant and equipment

Property, plant and equipment is initially recorded at historical cost, being the purchase cost plus any cost to prepare the assets for their intended use. Historical cost includes expenditure that is directly attributable to the acquisition of the item. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial year in which they are incurred.

Property, plant and equipment is subsequently carried at historical cost less accumulated depreciation and any accumulated impairment losses.

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at year-end. Where the assets' residual value is higher than the carrying value, no depreciation is provided.

Gains and losses on disposal of property, plant and equipment are determined as the difference between the carrying amount and the fair value of the sale proceeds, and are included in operating profit.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

	Computer equipment R'000	Furniture and fittings R'000	Motor vehicles R'000
Year ended 31 May 2018			
Opening carrying amount	**29 645**	**5 632**	**11 139**
Additions	**14 373**	**2 824**	**16 659**
Acquisition of subsidiaries	**2 208**	**2 808**	**2 148**
Disposals	**(78)**	**(2)**	**(3 442)**
Depreciation charge	**(13 759)**	**(1 989)**	**(4 834)**
Impairments	**—**	**—**	**—**
Translation difference	**(19)**	**(4)**	**(71)**
Closing carrying amount	**32 370**	**9 269**	**21 599**
At 31 May 2018			
Cost	**102 405**	**18 035**	**31 155**
Accumulated depreciation	**(69 865)**	**(8 062)**	**(9 556)**
Accumulated impairments	**(170)**	**(704)**	**—**
Carrying amount	**32 370**	**9 269**	**21 599**
Year ended 31 May 2017			
Opening carrying amount	22 855	1 926	10 044
Additions	22 211	4 468	5 817
Acquisition of subsidiary	20	285	—
Disposals	(212)	(57)	(1 214)
Depreciation charge	(15 229)	(990)	(3 508)
Closing carrying amount	29 645	5 632	11 139
At 31 May 2017			
Cost	92 694	12 438	19 969
Accumulated depreciation	(62 879)	(6 102)	(8 830)
Accumulated impairments	(170)	(704)	—
Carrying amount	29 645	5 632	11 139

There are no property, plant and equipment assets that are encumbered.

The residual values of buildings are estimated to be higher than the carrying value and therefore there is no depreciation charge.

Depreciation is calculated on the straight-line basis to write off the cost of the assets to their residual values over their estimated useful lives as follows:

Computer equipment	25% – 33.3%
Furniture and fittings	16.67% – 25%
Motor vehicles	20% – 25%
Office equipment	20% – 25%
Terminals and vending machines	16.67%
Media equipment	33.33%
Plant and machinery	20%
Buildings	8.33%

Office equipment R'000	Leasehold improvements R'000	Terminals and vending machines R'000	Media equipment R'000	Plant and machinery R'000	Buildings R'000	Total R'000
772	**2 494**	**51 882**	**5 238**	**698**	**4 099**	**111 599**
157	**3 446**	**30 219**	**3 962**	**—**	**—**	**71 640**
624	**678**	**—**	**—**	**158**	**—**	**8 624**
(4)	**(2)**	**(900)**	**—**	**(274)**	**—**	**(4 702)**
(383)	**(1 403)**	**(22 373)**	**(1 284)**	**(119)**	**—**	**(46 144)**
—	**—**	**(3 800)**	**—**	**—**	**—**	**(3 800)**
(2)	**(13)**	**—**	**—**	**12**	**—**	**(97)**
1 164	**5 200**	**55 028**	**7 916**	**475**	**4 099**	**137 120**
7 264	**52 367**	**148 051**	**10 855**	**708**	**4 099**	**374 939**
(5 680)	**(46 729)**	**(91 767)**	**(2 939)**	**(233)**	**—**	**(234 831)**
(420)	**(438)**	**(1 256)**	**—**	**—**	**—**	**(2 988)**
1 164	**5 200**	**55 028**	**7 916**	**475**	**4 099**	**137 120**
814	5 416	48 987	5 723	570	4 099	100 434
259	2 126	21 578	484	350	—	57 293
57	—	—	—	—	—	362
(7)	(5)	(292)	—	(19)	—	(1 806)
(351)	(5 043)	(18 391)	(969)	(203)	—	(44 684)
772	2 494	51 882	5 238	698	4 099	111 599
6 531	48 316	140 672	6 893	1 349	4 099	332 961
(5 339)	(45 384)	(85 203)	(1 655)	(651)	—	(216 043)
(420)	(438)	(3 587)	—	—	—	(5 319)
772	2 494	51 882	5 238	698	4 099	111 599

4. Non-financial instruments continued

4.4 Inventories

Inventories comprise prepaid airtime (including physical prepaid airtime), handsets and other related products.

Inventories are stated at the lower of cost or estimated net realisable value. Cost comprises direct materials and, where applicable, overheads that have been incurred in bringing the inventories to their present location and condition, excluding borrowing costs. The cost of inventory is determined by means of the weighted average cost basis. Net realisable value is the estimate of the selling price in the ordinary course of business, less selling expenses. Provisions are made for obsolete, unusable and unsaleable inventory and for latent damage first revealed when inventory items are taken into use or offered for sale. Where unused PINs have been recycled and included in inventory for resale, the Group recognises the stock at no value.

	2018 R'000	2017 R'000
Finished goods		
Prepaid airtime	**428 775**	2 067 904
Handsets	**142 799**	84 676
Other*	**26 372**	27 541
	597 946	2 180 121

** Other inventory mainly consists of starter packs and consumables.*

Inventories with a cost of R24.5 billion (2017: R24.3 billion) were sold during the year and have been charged to the income statement.

A general notarial bond is held by Investec Bank Limited over airtime up to R1.5 billion (2017: R1.5 billion).

4.5 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are not recognised for future operating expenses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

The increase in the provision due to the passage of time is recognised as an interest expense.

	Unredeemed electricity provision R'000	**Other provisions R'000**	**Total R'000**
Opening balance	**31 368**	**3 703**	**35 071**
Additions	**633 328**	**18 889**	**652 217**
Acquisition of subsidiaries	**—**	**5 902**	**5 902**
Used during the year	**(628 665)**	**(19 309)**	**(647 974)**
Reversed	**—**	**(5 588)**	**(5 588)**
Closing carrying amount	**36 031**	**3 597**	**39 628**

Unredeemed electricity provision

The unredeemed electricity provision raised represents the value of electricity vouchers sold and unredeemed as at year-end, payable by the Group to the municipalities on redemption by the end customer.

Redemption is dependent on activation by customers. This is expected to occur within the first quarter of the following financial year.

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

5. Employees

5.1 Equity compensation benefit

During the year 1 809 711 (2017: 1 376 257) forfeitable shares were granted to Executive Directors and qualifying employees (participant). The participant will forfeit the forfeitable shares if he/she ceases to be an employee of an employer company before the vesting date or if the specified performance conditions have not been met, unless otherwise specified by the rules or determined by the Board. In the event that the participant is not in the employ of the Group, or the performance conditions are not met, the shares allocated to the participant will be forfeited and will either be sold on the open market by the escrow agent and the proceeds will be returned to the participating employer, or may be retained by the Group for future awards.

Dividends declared in respect of these forfeitable shares are held in escrow until such time as the performance conditions are met and the shares have vested. Shares forfeited during the vesting period will forfeit any dividends pertaining to such shares. A dividend of 40 cents (2017: 36 cents) per ordinary share was declared on 23 August 2017 (2017: 23 August 2016).

The performance condition of the forfeitable shares for the seventh and eighth award vesting on 31 August 2017 and 31 August 2018 respectively are as follows:
- 40% of the awards are allocated towards retention. In order to receive this portion of the allocation the employee is required to be employed within the Group at the vesting date.
- 60% of the awards are allocated on the basis of 50% for growth in core headline earnings per share and 10% for shareholder returns.

The 50% for growth in core headline earnings will be based on the following achievements:
- If growth is 5% above CPI over three years, 20% of the 50% will vest.
- If growth is 10% above CPI over three years, an additional 50% (i.e. a total of 70%) of the 50% will vest.
- If growth is 25% above CPI over three years, a further 30% (i.e. a total of 100%) of the 50% will vest.

The 50% for growth in core headline earnings in respect of the seventh and eighth awards has been amended to include growth in core headline earnings at subsidiary level with regards to qualifying employees.

The 10% for shareholder return will be based on a 10% compounded growth in the share price over the three-year vesting period measured with reference to the weighted average price per share during the month of the commencement of the allocation and the weighted average share price for the month during which the vesting takes place, plus dividends over the three-year period.

The performance condition for Executive Directors for the ninth and tenth award grant vesting on 31 August 2019 and 31 August 2020 are as follows:
- 33.33% for retention (three years from date of award); and
- 66.67% financial (33.34% for growth in core headline earnings per share and 33.33% based on shareholder returns).

The 33.34% for growth in core headline earnings per share is based on the following achievements:
- If growth is 5% above CPI compounded annually over three years, then 20% of the 33.33% will vest.
- If growth is 10% above CPI compounded annually over three years, then an additional 50% (i.e. a total of 70%) of the 33.33% would vest. If growth is between 5% and 10% above CPI over the three years then the additional 50% will be reduced on a pro-rata basis.
- If growth is 25% above CPI compounded annually over three years, then a further 30% (i.e. a total of 100%) of the 33.33% will vest. If growth is between 10% and 25% above CPI over the three years then the additional 30% will be reduced on a pro-rata basis.

The 33.33% for shareholder return is based on a 10% compounded growth in the share price over the three-year vesting period, measured with reference to the weighted average price per share during the month of the commencement of the allocation plus dividends over the three-year period against the weighted average share price for the month during which the vesting takes place.

The performance condition for senior managers for the ninth and tenth award grant vesting on 31 August 2019 and 31 August 2020 are as follows:
- 40% for retention (three years from date of award); and
- 60% financial (30% for growth in core headline earnings per share and 30% based on shareholder returns).

The 30% for growth in core headline earnings per share is based on the following achievements:
- If growth is 5% above CPI compounded annually over three years, then 20% of the 30% will vest.
- If growth is 10% above CPI compounded annually over three years, then an additional 50% (i.e. a total of 70%) of the 30% would vest. If growth is between 5% and 10% above CPI over the three years then the additional 50% will be reduced on a pro-rata basis.
- If growth is 25% above CPI compounded annually over three years, then a further 30% (i.e. a total of 100%) of the 30% will vest. If growth is between 10% and 25% above CPI over the three years then the additional 30% will be reduced on a pro-rata basis.

The performance criteria for senior managers will be measured at subsidiary level.

5. Employees continued

5.1 Equity compensation benefit continued

The 30% for shareholder return is based on a 10% compounded growth in the share price over the three-year vesting period, measured with reference to the weighted average price per share during the month of the commencement of the allocation plus dividends over the three-year period against the weighted average share price for the month during which the vesting takes place.

Critical accounting estimates and assumptions

In determining the number of forfeitable shares that will vest due to performance conditions being met, management assesses the attrition rates of staff based on the grades of staff that have been granted awards as well as the historic staff turnover.

Movements in the number of forfeitable shares outstanding during the year are as follows:

	Grant date	Vesting date	Number of shares	Fair value of grant R'000
At 31 May 2016			7 228 132	67 301
Sixth award			2 141 673	18 740
Seventh award			2 495 393	22 210
Eighth award			2 591 066	26 351
Granted during the year			1 376 257	28 557
Ninth award	18 October 2016	31 August 2019	1 376 257	28 557
Shares forfeited during the year			(121 226)	(1 154)
Seventh award			(62 650)	(558)
Eighth award			(58 576)	(596)
Shares vested during the year			(2 141 673)	(18 740)
Sixth award		18 October 2016	(2 141 673)	(18 740)
At 31 May 2017			**6 341 490**	**75 964**
Seventh award			**2 432 743**	**21 652**
Eighth award			**2 532 490**	**25 755**
Ninth award			**1 376 257**	**28 557**
Granted during the year			**1 809 711**	**33 462**
Tenth award	1 September 2017	31 August 2020	**1 809 711**	**33 462**
Shares forfeited during the year			**(456 379)**	**(6 432)**
Eighth award			**(287 044)**	**(2 919)**
Ninth award			**(169 335)**	**(3 513)**
Shares vested during the year			**(2 432 743)**	**(21 652)**
Seventh award		31 August 2017	**(2 432 743)**	**(21 652)**
At 31 May 2018			**5 262 079**	**81 342**
Eighth award			**2 245 446**	**22 836**
Ninth award			**1 206 922**	**25 044**
Tenth award			**1 809 711**	**33 462**

Refer to note 5.2 for the expense recognised in the income statement relating to the equity compensation benefits.

The fair value of the shares is based on the open market closing price at grant date.

The total number of forfeitable shares issued to Executive Directors during the period is 414 785 (2017: 347 051).

The share-based payment expense in relation to these Executive Directors is R7.2 million (2017: R6.5 million). Refer to note 5.3 for details of awards per Director.

5. Employees continued

5.2 Equity compensation and benefit expense

(a) Equity compensation benefit

The Group operates an equity-settled forfeitable share incentive plan, under which the entity receives services from employees as consideration for equity instruments of the Group. The fair value of the services received in exchange for the grant of forfeitable shares is recognised as an expense. The total amount to be expensed is determined by the fair value of the forfeitable shares granted. The total amount expensed is recognised over the vesting period, which is the period over which all of the vesting conditions are to be satisfied. At each reporting date, the entity recognises the impact of any shares that have been forfeited prior to the end of the vesting period, if any, in the income statement with a corresponding adjustment to equity.

(b) Bonus plans

The Group recognises a liability and an expense for bonuses. A liability is recognised where the Group is contractually obliged or where there is a past practice that has created a constructive obligation.

The bonus expense is determined based on overall Group performance and other non-financial measures.

In terms of the Group remuneration policy, the joint CEOs may earn an annual incentive bonus of up to 120% of fixed remuneration, and other Executive Directors of up to 70%. Senior Management may earn up to 50% of their annualised fixed salary package.

	2018 R'000	2017 R'000
Salaries and wages	**433 280**	362 537
Bonuses	**64 727**	65 953
Equity compensation benefit	**23 862**	23 417
Other	**2 318**	1 078
	524 187	452 985

Average number of employees for the year was 831 (2017: 793).

5. Employees continued

5.3 Directors' emoluments

	Blue Label Services as Directors of Blue Label Telecoms Limited R'000	Salary and allowances R'000	Bonuses and performance-related payments R'000	Restraint of trade payments R'000	Other benefits R'000
For the year ended 31 May 2018					
Executive directors					
BM Levy	**—**	**8 486**	**—**	**1 947**	**176**
MS Levy	**—**	**8 499**	**—**	**1 947**	**163**
DA Suntup	**—**	**4 425**	**—**	**—**	**163**
	—	**21 410**	**—**	**3 894**	**502**
Non-executive directors					
LM Nestadt	**1 840**	**—**	**—**	**—**	**—**
K Ellerine	**570**	**—**	**—**	**—**	**—**
G Harlow	**1 060**	**—**	**—**	**—**	**—**
J Mthimunye	**955**	**—**	**—**	**—**	**—**
JS Vilakazi	**705**	**—**	**—**	**—**	**—**
P Mahanyele**	**780**	**—**	**—**	**—**	**—**
	5 910	**—**	**—**	**—**	**—**
	5 910	**21 410**	**—**	**3 894**	**502**
For the year ended 31 May 2017					
Executive directors					
BM Levy	—	7 973	7 808	—	160
MS Levy	—	7 985	7 808	—	149
DA Suntup	—	4 159	2 412	—	149
	—	20 117	18 028	—	458
Non-executive directors					
LM Nestadt	1 214	—	—	—	—
K Ellerine	439	—	—	—	—
G Harlow	890	—	—	—	—
J Mthimunye	772	—	—	—	—
JS Vilakazi	564	—	—	—	—
P Mahanyele**	339	—	—	—	—
Y Mahomed##	231	—	—	—	—
	4 449	—	—	—	—
	4 449	20 117	18 028	—	458

*** P Mahanyele appointed with effect from 1 September 2016.*
Y Mahomed resigned with effect from 11 January 2017.

The fair value of forfeitable shares per Director has been included.

No Director has a notice period of more than one year.

No Director's service contract includes predetermined compensation as a result of termination that would exceed one year's salary and benefits.

Subtotal R'000	Services as Directors of subsidiaries of Blue Label Telecoms Limited R'000	Salary and allowances from subsidiaries R'000	Bonuses and performance-related payments from subsidiaries R'000	Retirement and related benefits from subsidiaries R'000	Total R'000	Fair value of forfeitable shares R'000
10 609	**—**	**—**	**—**	**—**	**10 609**	**6 655**
10 609	**—**	**—**	**—**	**—**	**10 609**	**6 655**
4 588	**—**	**—**	**—**	**—**	**4 588**	**3 525**
25 806	**—**	**—**	**—**	**—**	**25 806**	**16 835**
1 840	**—**	**—**	**—**	**—**	**1 840**	
570	**—**	**—**	**—**	**—**	**570**	
1 060	**555**	**—**	**—**	**—**	**1 615**	
955	**25**	**—**	**—**	**—**	**980**	
705	**—**	**—**	**—**	**—**	**705**	
780	**—**	**—**	**—**	**—**	**780**	
5 910	**580**	**—**	**—**	**—**	**6 490**	
31 716	**580**	**—**	**—**	**—**	**32 296**	**16 835**
15 941	—	—	—	—	15 941	10 729
15 942	—	—	—	—	15 942	10 729
6 720	—	—	—	—	6 720	5 682
38 603	—	—	—	—	38 603	27 140
1 214	—	—	—	—	1 214	
439	—	—	—	—	439	
890	473	—	—	—	1 363	
772	48	—	—	—	820	
564	—	—	—	—	564	
339	—	—	—	—	339	
231	72	—	—	—	303	
4 449	593	—	—	—	5 042	
43 052	593	—	—	—	43 645	

5. Employees continued

5.3 Directors' emoluments continued

	Issue date	Issue price R	Vesting date
Forfeitable share scheme per Director			
For the year ended 31 May 2018			
BM Levy	**3 September 2014**	**8.90**	**31 August 2017**
BM Levy	**1 September 2015**	**10.17**	**31 August 2018**
BM Levy	**18 October 2016**	**20.75**	**31 August 2019**
BM Levy	**1 September 2017**	**18.49**	**31 August 2020**
MS Levy	**3 September 2014**	**8.90**	**31 August 2017**
MS Levy	**1 September 2015**	**10.17**	**31 August 2018**
MS Levy	**18 October 2016**	**20.75**	**31 August 2019**
MS Levy	**1 September 2017**	**18.49**	**31 August 2020**
DA Suntup	**3 September 2014**	**8.90**	**31 August 2017**
DA Suntup	**1 September 2015**	**10.17**	**31 August 2018**
DA Suntup	**18 October 2016**	**20.75**	**31 August 2019**
DA Suntup	**1 September 2017**	**18.49**	**31 August 2020**
Forfeitable share scheme per Director			
For the year ended 31 May 2017			
BM Levy	2 September 2013	8.75	31 August 2016
BM Levy	3 September 2014	8.90	31 August 2017
BM Levy	1 September 2015	10.17	31 August 2018
BM Levy	18 October 2016	20.75	31 August 2019
MS Levy	2 September 2013	8.75	31 August 2016
MS Levy	3 September 2014	8.90	31 August 2017
MS Levy	1 September 2015	10.17	31 August 2018
MS Levy	18 October 2016	20.75	31 August 2019
DA Suntup	2 September 2013	8.75	31 August 2016
DA Suntup	3 September 2014	8.90	31 August 2017
DA Suntup	1 September 2015	10.17	31 August 2018
DA Suntup	18 October 2016	20.75	31 August 2019

Awards outstanding as at the beginning of the year	Number of shares awarded	Awards forfeited during the year	Awards vested during the year	Balance as at the end of the year
283 339	—	—	(283 339)	—
262 834	—	—	—	262 834
137 194	—	—	—	137 194
—	163 970	—	—	163 970
683 367	163 970	—	(283 339)	563 998
283 339	—	—	(283 339)	—
262 834	—	—	—	262 834
137 194	—	—	—	137 194
—	163 970	—	—	163 970
683 367	163 970	—	(283 339)	563 998
150 067	—	—	(150 067)	—
139 207	—	—	—	139 207
72 663	—	—	—	72 663
—	86 845	—	—	86 845
361 937	86 845	—	(150 067)	298 715
271 883	—	—	(271 883)	—
283 339	—	—	—	283 339
262 834		—	—	262 834
—	137 194	—	—	137 194
818 056	137 194	—	(271 883)	683 367
271 883	—	—	(271 883)	—
283 339	—	—	—	283 339
262 834		—	—	262 834
—	137 194			137 194
818 056	137 194	—	(271 883)	683 367
118 540	—	—	(118 540)	—
150 067	—	—	—	150 067
139 207		—	—	139 207
—	72 663	—	—	72 663
407 814	72 663	—	(118 540)	361 937

6. Share capital

Ordinary shares are classified as equity and the shares are fully paid up.

Shares acquired by Blue Label Telecoms for its own employees' equity compensation benefit scheme, as well as the shares procured by the subsidiaries in terms of this scheme, are accounted for as treasury shares in the Group statement of financial position.

	2018 Number of shares	2017 Number of shares	**2018 R'000**	2017 R'000
Authorised				
Total authorised share capital of ordinary shares (par value of R0.000001 each)	**2 000 000 000**	1 000 000 000	**2**	1
Issued				
Balance at the beginning of the year	**668 036 256**	666 243 234	*****	*
Shares issued during the year	**271 999 999**	—	**1**	—
Shares acquired during the year	**(1 583 248)**	(348 651)	*****	*
Shares vested during the year	**2 432 743**	2 141 673	*****	*
Balance at the end of the year	**940 885 750**	668 036 256	**1**	*

** Less than R1 000.*

All issued shares are fully paid up.

The total number of shares in issue including shares held as treasury shares as at 31 May 2018 is 946 509 041 (2017: 674 509 042).

The Company acquired 1 583 248 (2017: 348 651) shares at an average price of R18.22 (2017: R21.17) on the JSE in order to grant forfeitable shares to employees and Directors as part of the Group's forfeitable share plan.

The amount paid to acquire these shares was R28 845 987 (2017: R7 380 663) and has been deducted from shareholders' equity. These shares are held as treasury shares.

Refer to note 5.1 for details on the forfeitable shares.

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

TPC acquired 100% of the issued share capital in 3G Mobile from its shareholders. The acquisition has been structured in two stages whereby 47.37% was acquired on 2 August 2017 and the remaining 52.63% was acquired on 6 December 2017. Of the initial purchase of 47.37%, 16 666 666 ordinary shares were issued to the 3G Mobile shareholders in part settlement. Refer to note 2.1 for further details. The remaining 52.63% was part settled by the issue of 72 000 000 shares to third parties. Refer to note 2.5 for further details.

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

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

7. Taxation

7.1 Income tax expense

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at year-end in the countries where the Company's subsidiaries, associates and joint ventures operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

Uncertain tax positions are considered by the Group at the level of the individual uncertainty or group of related uncertainties.

Critical accounting estimates and assumptions

As with any enterprise, the Group faces uncertainties in the markets in which it operates and over which it has little or no control. The Group is subject to income tax in numerous jurisdictions and judgement is required in determining the provision for tax.

There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Amounts accrued are based on management's interpretation of country-specific tax law and the likelihood of settlement. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets are recognised to the extent that it is probable that taxable income will be available in the future against which these can be utilised. Future taxable income is estimated based on business plans which include estimates and assumptions regarding economic growth, interest rates, inflation and competitive forces.

	2018 R'000	Restated 2017 R'000
Current tax	**330 920**	345 990
Current year	**330 763**	344 739
Adjustment in respect of prior years	**157**	1 251
Deferred tax	**149**	(16 174)
Current year	**(3 400)**	(16 888)
Adjustment in respect of prior years	**3 549**	714
	331 069	329 816
Profit before tax	**1 378 378**	1 144 966
Tax at 28%	**385 946**	320 590
Fair value adjustments	**27 956**	(1 565)
Expenditure of a capital nature	**1 948**	11 480
Other income not subject to tax	**(1 977)**	(11 421)
Other expenses not deductible for tax purposes	**10 535**	4 434
Interest receivable impaired in prior years written off	**(8 257)**	—
Impairment of loan to joint venture (refer to note 2.2)	**39 718**	—
Surety loan recognition	**(15 401)**	—
Tax effect of reclassification of investment in associates and joint venture to venture capital investment	**—**	(44 855)
Capital gains tax	**—**	2 876
Tax effect of assessed losses not recognised	**48 763**	130
Utilisation of previously unrecognised assessed losses	**(3 440)**	—
Share of (profits)/losses from associates and joint ventures (refer to notes 2.1 and 2.2)	**(158 428)**	46 183
Adjustment in respect of prior years	**3 706**	1 964
Tax charge	**331 069**	329 816
Effective tax rate (%)	**24**	29

7. Taxation continued

7.2 Deferred taxation

Deferred taxation is provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes.

However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by year-end and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Critical accounting estimates and assumptions

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

	Capital allowances R'000	Purchase price allocations and fair value gains R'000	Pro-visions R'000	Tax losses R'000	Pre-payments R'000	Unrealised foreign exchange differences R'000	Other R'000	Total R'000
At 31 May 2016 restated	(458)	41 715	(18 661)	(16 619)	4 268	33 868	(4 524)	39 589
Charged/(credited) to the income statement	7 828	(5 411)	(3 720)	1 050	(1 466)	(16 134)	1 679	(16 174)
Disposal of subsidiary	—	—	—	(721)	—	—	—	(721)
At 31 May 2017 restated	**7 370**	**36 304**	**(22 381)**	**(16 290)**	**2 802**	**17 734**	**(2 845)**	**22 694**
Charged/(credited) to the income statement	**1 126**	**(11 973)**	**(5 267)**	**(7 366)**	**2 473**	**(2 683)**	**23 839**	**149**
Acquisition of subsidiaries (refer to note 2.5)	**1 946**	**183 852**	**(4 341)**	**(353)**	**13**	**—**	**(20 083)**	**161 034**
At 31 May 2018	**10 442**	**208 183**	**(31 989)**	**(24 009)**	**5 288**	**15 051**	**911**	**183 877**

7. Taxation continued

7.2 Deferred taxation continued

	2018 R'000	Restated 2017 R'000
Deferred tax asset comprises:		
Purchase price allocations and fair value gains	**(280)**	—
Provisions	**(31 989)**	(23 076)
Tax losses	**(24 009)**	(16 290)
Other	**(10 822)**	(5 262)
Total deferred tax asset	**(67 100)**	(44 628)
Deferred tax liability comprises:		
Capital allowances	**10 442**	7 370
Purchase price allocations and fair value gains	**208 463**	36 304
Provisions	**—**	695
Prepayments	**5 288**	2 802
Unrealised foreign exchange differences	**15 051**	17 734
Other	**11 733**	2 417
Total deferred tax liability	**250 977**	67 322
Net deferred tax	**183 877**	22 694
The analysis of deferred tax assets and deferred tax liabilities is as follows:		
Deferred tax assets		
Deferred tax assets to be recovered after more than 12 months	**(8 205)**	10 396
Deferred tax assets to be recovered within 12 months	**(37 018)**	(37 093)
Net deferred tax asset	**(45 223)**	(26 697)
Deferred tax liabilities		
Deferred tax liabilities to be recovered after more than 12 months	**192 077**	44 168
Deferred tax liabilities to be recovered within 12 months	**37 023**	5 223
Net deferred tax liability	**229 100**	49 391
Net deferred tax	**183 877**	22 694

Where deferred tax assets have been recognised in respect of entities which have incurred losses in the current or prior years, a formal process of assessment of the future profitability of the entity has been performed based on detailed budgets and cash flow forecasts. As a result, management believes that the current tax losses will be utilised within one to five years.

Deferred tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of R16.7 million (2017: R44.3 million) in respect of losses amounting to R59.8 million (2017: R158.5 million) that can be carried forward against future taxable income.

There is no withholding tax that would be payable on any dividends received from the Group's equity accounted associates and joint ventures and therefore no deferred tax has been raised in this regard. Deferred tax at the CGT rate has been raised on investments in associates and joint venture that are classified as venture capital investments.

7.3 Taxation paid

	2018 R'000	2017 R'000
Balance outstanding at the beginning of the year	**43 697**	36 521
Taxation charge	**330 920**	345 990
Translation differences	**(93)**	—
Balance outstanding at the end of the year	**(6 425)**	(43 697)
	368 099	338 814

8. Related parties

Transactions and balances with related parties:

	2018 R'000	2017 R'000
Sales to related parties		
3G Mobile (Botswana) Proprietary Limited*	13 162	—
Bluchip Holdings Proprietary Limited	133	—
Blue Label Mexico S.A. de C.V.*	5 445	6 709
Datacision Proprietary Limited*	142	117
Cell C Limited*	1 100 788	—
JRL Autotraders Proprietary Limited	525	—
Lornanox Proprietary Limited*	13 401	9 629
Melrose Motor Investments Proprietary Limited	—	645
Prepaid24 Proprietary Limited*	7 993	308
Stylco Proprietary Limited	—	9 174
Unihold Group Proprietary Limited	2	355
United Call Centre Solutions Proprietary Limited*	3 817	400
ZOK Cellular Proprietary Limited	1 756	1 861
Purchases from related parties		
3G Mobile (Botswana) Proprietary Limited*	2 200	—
Black Ginger 59 Proprietary Limited	12 305	14 340
Bluchip Retail Solutions Proprietary Limited	1 157	—
Cell C Limited*	4 873 215	—
JRL Autotraders Proprietary Limited	910	—
Matragon House Proprietary Limited	—	49
Melrose Motor Investments Proprietary Limited	4 228	—
Mpower Softcomm Private Limited*	—	892
Stylco Proprietary Limited	—	89
SSG Cleaning Proprietary Limited	8	—
SSG Security Solutions Proprietary Limited	384	—
The Grill House Close Corporation	100	156
United Call Centre Solutions Proprietary Limited*	2 205	—
Utilities World Proprietary Limited*	10 604	12 855
Uvongo Falls No 26 Proprietary Limited	1 170	972
Wildekrans Wine Estate Proprietary Limited	—	1
ZOK Cellular Proprietary Limited	17 549	17 552
Interest received from related parties		
2DFine Holdings Mauritius* (refer to note 2.2)	21 736	21 159
Cell C Limited* (refer to note 2.1)	96 380	—
Lornanox Proprietary Limited* (refer to note 2.1)	3 326	3 385
Oxigen Services India Private Limited* (refer to note 2.2)	1 025	2 565
Prepaid24 Proprietary Limited*	538	297
Stylco Proprietary Limited	—	3 041
Supa Pesa South Africa Proprietary Limited* (refer to note 2.1)	739	790
United Call Centre Solutions Proprietary Limited*	196	—
Management fees received from related parties		
Datacision Proprietary Limited*	460	563
United Call Centre Solutions Proprietary Limited*	600	200
Rent paid to related parties		
Ellerine Bros. Proprietary Limited	8 582	8 180
Matragon House Proprietary Limited	—	712
Moneyline 311 Proprietary Limited	8 582	8 180
Uvongo Falls No 26 Proprietary Limited	6 389	3 697
Wildekrans Trust	4 257	3 943

8. Related parties continued

	2018 R'000	2017 R'000
Purchases of property, plant and equipment from related parties		
Melrose Motor Investments Proprietary Limited	1 238	4 535
Loans from related parties		
Datacision Proprietary Limited* (refer to note 3.2.2)	—	4 738
Loans to related parties		
2DFine Holdings Mauritius*† (refer to note 2.2)	100 836	218 305
Brett Levy (refer to note 3.1.1)	27 503	—
Cell C Limited* (refer to note 2.1)	1 029 626	—
Lornanox Proprietary Limited* (refer to note 2.1)	79 249	75 209
Mark Levy (refer to note 3.1.1)	27 503	—
Oxigen Services India Private Limited* (refer to note 2.2)	34 018	34 310
Prepaid24 Proprietary Limited* (refer to note 2.1)	13 370	11 033
Supa Pesa South Africa Proprietary Limited* (refer to note 2.1)	6 265	6 714
United Call Centre Solutions Proprietary Limited* (refer to note 2.1)	18 190	1 591
ZOK Cellular Proprietary Limited (refer to note 3.1.1)	19 768	26 364
Amounts due from related parties included in trade receivables		
3G Mobile (Botswana) Proprietary Limited*	31 688	
Black Ginger 59 Proprietary Limited	14	—
Bluchip Holdings Proprietary Limited	287	—
Blue Label Mexico S.A. de C.V.*	2 757	3 194
Cell C Limited*	2 623 194	—
Datacision Proprietary Limited*	675	582
Lornanox Proprietary Limited*	35 528	13 676
Oxigen Services India Private Limited*	5 244	5 244
Prepaid24 Proprietary Limited*	61	—
United Call Centre Solutions Proprietary Limited*	896	—
Utilities World Proprietary Limited*	16 551	5 722
ZOK Cellular Proprietary Limited	—	3
	2 716 895	28 421
Amounts due to related parties included in trade payables		
3G Mobile (Botswana) Proprietary Limited*	30 799	—
Black Ginger 59 Proprietary Limited	2 177	2 057
Blue Label Mexico S.A. de C.V.*	—	393
Cell C Limited*	1 573 472	—
Datacision Proprietary Limited*	128	55
Matragon House Proprietary Limited	—	6
Prepaid24 Proprietary Limited*	2 844	1 098
United Call Centre Solutions Proprietary Limited*	905	—
Utilities World Proprietary Limited*	11 423	8 426
	1 621 748	12 035

** 2DFine Holdings Mauritius, Cell C Limited, Prepaid 24 Proprietary Limited, Blue Label Mexico S.A. de C.V., Datacision Proprietary Limited, United Call Centre Solutions Proprietary Limited, Forensic Intelligence Data Solutions Proprietary Limited, Utilities World Proprietary Limited, Lornanox Proprietary Limited, Mpower Softcomm Private Limited, 3G Mobile (Botswana) Proprietary Limited, and Supa Pesa South Africa Proprietary Limited are related parties in that they are associates or joint ventures of the Group (refer to note 2.4). The remaining companies are related parties due to Directors' shareholdings and the companies having certain common directorships.*

† B Levy and M Levy have signed personal sureties for the loan owed by 2DFine Holdings Mauritius to Gold Label Investments Proprietary Limited. Their liability is limited to the difference between the loan owing to Gold Label Investments Proprietary Limited and the value of 16.93% of the shares in Oxigen Services India Private Limited on the 30th day after which the loan becomes due and payable or the extended date as may be agreed in writing by Gold Label Investments Proprietary Limited. In the current year a surety asset has been raised, refer to note 3.1.1.

For details of emoluments to Directors refer to note 5.3. For details of equity compensation benefit expense in respect of Directors refer to note 5.1. The Executive Directors of the Company are regarded as key management of the Group.

For details of the shareholdings in the Company, refer to the Directors' report.

9. Unrecognised items

9.1 Commitments

Future operating lease commitments

The Group leases various offices under non-cancellable operating lease agreements.

The lease terms are between one and five years, and the majority of lease agreements are renewable at the end of the lease period at market rates.

The Group is required to give six months' notice for the termination of the majority of these agreements.

The lease expenditure charged to the income statement during the year is disclosed in note 1.3.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2018 R'000	2017 R'000
Premises		
Payable within one year	**28 932**	29 263
Payable in two to five years	**88 398**	101 742
Payable in greater than five years	**—**	55 197
	117 330	186 202

9.2 Subsequent events

On 30 June 2018 The Prepaid Company subscribed for 48% of Glocell Distribution Proprietary Limited (Glocell Distribution), a newly formed company that acquired the business operations of Glocell Proprietary Limited (Glocell). The business operations include the vending of airtime and other value added services to a long-established client base. The cost of subscription for the shares amounted to R173.4 million by way of capitalising debt owing by Glocell to The Prepaid Company.

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, The Prepaid Company has undertaken to purchase such inventory from the consortium on a piecemeal basis over a specified period that has been agreed upon. Any shortfall of this purchase would be in lieu of purchases made from Cell C within that period. The payment terms as between TPC and Cell C on the normal Cell C trading account would be extended by 120 days, ensuring that TPC will not be at any risk of having to purchase airtime in excess of its monthly requirements.

On 1 August 2018 BLT acquired 60% of the issued share capital of AV Technology Limited for a purchase consideration of USD6.4 million (R84.2 million). The purchase agreement contains an option arrangement which may result in BLT acquiring the remaining 40% of the entity.

Post-year-end the Board has approved a share buyback programme.

9. Unrecognised items continued

9.2 Subsequent events continued

Shares in the following subsidiaries were acquired subsequent to year-end:

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

Details of the provisional net assets acquired through acquisition are as follows:

	Glocell Distribution Proprietary Limited R'000	AV Technology Limited R'000	Lornanox Proprietary Limited R'000
Total purchase consideration	173 400	84 187	5 000
Provisional fair value of net assets acquired	25 487	8 122	(66 993)
Goodwill	147 913	76 065	71 993

9. Unrecognised items continued

9.2 Subsequent events continued

The provisional assets and liabilities acquired through acquisition are as follows:

	Glocell Distribution Proprietary Limited		AV Technology Limited		Lornanox Proprietary Limited	
	Provisional fair value at acquisition date R'000	Acquirer's provisional carrying amount on acquisition date R'000	Provisional fair value at acquisition date R'000	Acquirer's provisional carrying amount on acquisition date R'000	Provisional fair value at acquisition date R'000	Acquirer's provisional carrying amount on acquisition date R'000
Cash and cash equivalents	5 978	5 978	65 442	65 442	10 605	10 605
Property, plant and equipment	6 023	6 023	440	440	39 251	39 251
Intangible assets	80 685	28 665	15 596	—	2 000	—
Goodwill	147 913	—	76 065	—	71 993	—
Inventories	7 267	7 267	—	—	34 255	34 255
Receivables	14 677	14 677	10 085	10 085	23 611	23 611
Deferred tax	(14 566)	—	(4 367)	—	(11 648)	—
Borrowings	(39 787)	(39 787)	—	—	(104 880)	(144 480)
Payables	(7 179)	(7 179)	(73 658)	(73 658)	(60 186)	(60 186)
Provisional value of subsidiaries acquired	201 011	15 644	89 603	2 309	5 001	(96 944)
Non-controlling interest		(27 611)		(5 415)		—
Provisional value of net assets acquired		(11 967)		(3 106)		(96 944)
Total purchase consideration		173 400		84 187		5 000

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

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

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

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

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

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

10. Accounting framework

10.1 Basis of preparation

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

The Group annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the JSE Listings Requirements and the Companies Act, No 71 of 2008.

The term IFRS includes International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC). The standards referred to are set by the International Accounting Standards Board (IASB).

The Group annual financial statements are prepared under the historical cost convention, adjusted for financial instruments measured at fair value through profit and loss. Amounts are rounded to the nearest thousand with the exception of earnings per share, ordinary share capital and equity compensation benefit. The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in the notes to which they relate.

10.2 Going concern

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within its current funding levels into the foreseeable future.

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continue to adopt the going concern basis in preparing the financial statements.

10.3 Standards, amendments and interpretations not yet effective

The Group has evaluated the effect of all new standards, amendments and interpretations that have been issued but which are not yet effective. The expected implications of the applicable standards, amendments and interpretations are dealt with below.

IFRS 9 – *Financial Instruments*

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit and loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit and loss with the irrevocable option at inception to present changes in fair value in other comprehensive income. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes.

10. Accounting framework continued

10.3 Standards, amendments and interpretations not yet effective continued

Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.

The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted.

The classification and measurement of the portfolio of financial assets and financial liabilities held by the Group is not expected to change on application of IFRS 9

IFRS 9 requires that impairments be recognised for all amortised cost financial assets based on an expected loss model. This is a fundamental change to IAS 39 which is based on an incurred loss model. The primary changes resulting from IFRS 9 on the Group will be to trade receivables. The Group has elected under IFRS 9 to recognise the full amount of credit losses that would be expected to be incurred over the full recovery period of trade receivables, contract assets recorded under IFRS 15 and finance lease receivables at the date of initial recognition of those assets; currently credit losses are not recognised on such assets until there is an indicator of impairment, such as a payment default. While the model for measuring impairment will change we do not anticipate a significant change in the quantum of impairment losses requiring recognition.

IFRS 9 provides a more principle-based approach to apply hedge accounting. It requires that the hedge documentation be aligned with the risk management objective and strategy of the entity. The Group does not expect a significant change to the accounting for hedge relationships.

This standard is effective for accounting periods beginning on or after 1 January 2018. The Group expects to adopt IFRS 9 retrospectively to each reporting period presented.

Amendments to IFRS 9 – *Financial Instruments*

The amendment covers two issues. Firstly, the amendments allow companies to measure particular prepayable financial assets with so-called negative compensation at amortised cost or at fair value through other comprehensive income if a specified condition is met – instead of at fair value through profit or loss. Secondly, the amendment deals with how to account for the modification of a financial liability. The amendment confirms that most such modifications will result in immediate recognition of a gain or loss.

This standard is effective for accounting periods beginning on or after 1 January 2018. The Group is currently considering the impact on the consolidated financial statements but does not expect this to have any impact.

IFRS 16 – *Leases*

IFRS 16, 'Leases' states that lessees should be required to recognise assets and liabilities arising from all leases (with limited exceptions) on the statement of financial position. Lessor accounting has not substantially changed in the new standard.

The model reflects that, at the start of a lease, the lessee obtains the right to use an asset for a period of time and has an obligation to pay for that right. In response to concerns expressed about the cost and complexity to apply the requirements to large volumes of small assets, the IASB decided not to require a lessee to recognise assets and liabilities for short-term leases (less than 12 months), and leases for which the underlying asset is of low value (such as laptops and office furniture).

A lessee measures lease liabilities at the present value of future lease payments. A lessee measures lease assets, initially at the same amount as lease liabilities, and also includes costs directly related to entering into the lease. Lease assets are amortised in a similar way to other assets such as property, plant and equipment. This approach will result in a more faithful representation of a lessee's assets and liabilities and, together with enhanced disclosures, will provide greater transparency of a lessee's financial leverage and capital employed.

IFRS 16 supersedes IAS 17, 'Leases', IFRIC 4, 'Determining whether an Arrangement contains a Lease', SIC 15, 'Operating Leases – Incentives' and SIC 27, 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'.

10. Accounting framework continued

10.3 Standards, amendments and interpretations not yet effective continued

IFRS 16 – *Leases continued*

The Group is currently assessing the impact of IFRS 16 and the following impacts are expected:

- Right-of-use assets such as premises and motor vehicles will be recorded as assets that are leased by the Group. Currently no assets are recorded on the Group's statement of financial position for operating leases.
- Liabilities will be recorded for future lease payments in the Group's statement of financial position for the "reasonably certain" period of the lease, which may include future lease periods for which the Group has extension options. Currently liabilities are generally not recorded for future operating lease payments, which are disclosed as commitments in note 9.1. The amount of the lease liabilities will not equal these lease commitments as they will be discounted to present value and the treatment of termination and extension options may differ.
- The right-of-use assets will now be depreciated over the useful life of the asset. This expense will be below the EBITDA line (earnings before interest, tax, depreciation and amortisation). Currently operating lease rentals are expensed on a straight-line basis over the lease term within operating expenses which is included in EBITDA.
- Operating lease cash flows are currently included within operating cash flows in the Group statement of cash flows. Under IFRS 16 these will be recorded as cash flows from financing activities reflecting the repayment of lease liabilities.

The Group is continuing to assess the impact of the accounting changes that will arise under IFRS 16 and cannot yet reasonably quantify the impact; however, the changes highlighted above will have a material impact on the Group income statement, Group statement of financial position and Group statement of cash flows once adopted on 1 June 2019.

IFRS 15 and Amendments to IFRS 15 – *Revenue From Contracts With Customers*

IFRS 15 sets out the requirements for recognising revenue and costs from contracts with customers and includes extensive disclosure requirements.

The IASB has amended IFRS 15 to clarify the guidance, but there were no major changes to the standard itself. The amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of these areas of guidance. The IASB has also included additional practical expedients related to transition to the new revenue standard.

This statement is effective for accounting periods beginning on or after 1 January 2018. The expected impact on the Group's reporting of revenue is as follows:

- Deliverables in contracts with customers that qualify as separate 'performance obligations' will be identified and the contractual transaction price receivable from customers will be allocated to the performance obligation on a relative standalone selling price basis. The performance obligations identified will depend on the nature of individual customer contracts, but might typically be identified for the sale of mobile handsets and the sale of airtime. Standalone selling prices will be based on observable sales prices, however where standalone selling prices are not directly observable, estimates will be made by maximising the use of observable inputs. Revenue will be recognised at either a point in time or over time when the respective performance obligation in a contract are delivered to the customer.
- Expected credit losses will be recorded in respect of amounts due from customers. The recognition of contract assets under IFRS 15 will result in an increase in credit loss charges recorded in future periods.
- Certain incremental costs incurred in acquiring a contract with a customer will be deferred on the consolidated statement of financial position and amortised as revenue is recognised under the related contract; this will generally lead to the deferred recognition of charges for some commissions payable to third-party dealers and employees. In addition, certain types of contract acquisition costs will be deducted from revenue as they are considered to relate to the funding of customer discounts.
- Certain costs incurred in fulfilling customer contracts will be deferred on the consolidated statement of financial position and recognised as the related revenue is recognised under the contract. Such deferred costs are likely to relate to the provision of deliverables to customers that do not qualify as performance obligations and for which revenue is not recognised. Currently such costs are expensed as incurred.
- Principal versus agent recognition, the considerations for which have changed slightly under IFRS 15, will result in an increase in revenue recognised. The majority of the Group's revenue recognised as agent under IAS 18, being PINless airtime and electricity, will remain unchanged as agent under IFRS 15.

The majority of Group revenue is derived from the sale and distribution of prepaid airtime. The recognition points at which risks and rewards transfer for the sale of prepaid airtime under IAS 18 remain unchanged when compared to the recognition points at which control transfers under IFRS 15. As such, the majority of Group revenue is expected to remain unchanged under IFRS 15.

The Group expects to adopt IFRS 15 retrospectively to each reporting period presented.

10. Accounting framework continued

10.3 Standards, amendments and interpretations not yet effective continued

IFRIC 22 – *Foreign currency transactions and advance consideration*

This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payment/receipts are made. The guidance aims to reduce diversity in practice.

This interpretation is effective for periods beginning on or after 1 January 2018. The Group is currently considering the impact on the consolidated financial statements.

Annual improvements project

Annual improvements to IFRS 2014 – 2016 Cycle

IAS 28 – *Investments in associates and joint ventures*

This is an amendment regarding measuring an associate or joint venture at fair value. IAS 28 allows venture capital organisations, mutual funds, unit trusts and similar entities to elect measuring their investments in associates or joint ventures at fair value through profit or loss (FVTPL). The Board clarified that this election should be made separately for each associate or joint venture at initial recognition. Effective 1 January 2018.

Annual improvements to IFRS 2015 – 2017 Cycle

IFRS 3 – *Business combination*

This amendment requires a company to remeasure its previously held interest in a joint operation when it obtains control of the business. Effective 1 January 2019.

IFRS 11 – *Joint arrangements*

This amendment states that a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business. Effective 1 January 2019.

Management is currently considering the effect of the changes.

10.4 Other accounting policies

Starter pack assets

A starter pack is a tool which enables the connection of a mobile device to a mobile network operator, also known as a subscriber identity module (SIM) card.

The starter pack asset represents starter packs which have been distributed but not yet activated. On activation of the starter pack, the Group has a right to receive cash. Starter packs are stated at cost less provision for impairment and are determined by means of the weighted average cost basis.

Provision for impairments are made for starter packs distributed but not expected to be activated.

Foreign currencies

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The Group financial statements are presented in South African rand (ZAR), which is the functional and presentation currency of the parent company.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement in operating profit.

10. Accounting framework continued

10.4 Other accounting policies continued

Foreign currencies continued

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at the closing rate as at statement of financial position date;
- Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as the foreign entity's assets and liabilities and are translated at the closing rate.

Dividend tax

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

Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which they are approved by the shareholders.

Distributions of non-cash assets received from subsidiary companies are recognised as a dividend at the fair value of the non-cash assets received.

10.5 Change in accounting policy

During the current period, the South African Institute of Chartered Accountants issued Circular 2/2017 which replaced Circular 9/2006. Circular 9/2006 – Transactions giving rise to adjustments to revenue/purchases previously included guidance on the recognition of financing elements. Although the Group did not believe that their revenue and purchase transactions constituted financing activities, the Group has previously accounted for its sale and purchase transactions as including a financing element based on the guidance in Circular 9/2006.

Subsequent to the issuing of Circular 9/2006, the International Financial Reporting Standards Interpretations Committee (Interpretations Committee) has debated financing elements contained within transactions for both revenue and purchases under the current accounting standards (IAS 2 – Inventories and IAS 18 – Revenue). Circular 2/2017 considers these developments and updates the previous guidance contained in Circular 9/2006 relating to financing elements of revenue and purchases. Circular 2/2017 repeals the guidance in Circular 9/2006 that deals with extended payment terms (paragraphs 23 to 30).

As a result of the revised guidance in Circular 2/2017, the Group has reconsidered its accounting policy with respect to financing components included in its sale and purchase transactions in the ordinary course of business. In line with the guidance contained in Circular 2/2017, in particular the indicators provided in paragraph 7 of the Circular, the Group has concluded that there is no financing component included in its sale and purchase transactions that occur in the ordinary course of business. In accordance with IAS 8, the Group has therefore restated their comparative financial information for this change in accounting policy and provided an opening balance sheet as at 1 June 2016. The impact of this change in accounting policy was immaterial to the opening retained earnings at 1 June 2016.

10. Accounting framework continued

10.5 Change in accounting policy continued

Group statement of financial position

	Notes	Restated 2017 R'000	Adjust-ments R'000	Reported 2017 R'000	Restated 2016 R'000	Adjust-ments R'000	Reported 2016 R'000
Assets							
Non-current assets		2 198 757	—	2 198 757	2 275 161	—	2 275 161
Current assets		6 498 626	7 113	6 491 513	5 037 786	6 996	5 030 790
Trade and other receivables	3.1.2	2 766 110	7 113	2 758 997	2 686 019	6 996	2 679 023
Total assets		8 697 383	7 113	8 690 270	7 312 947	6 996	7 305 951
Equity and liabilities							
Capital and reserves		4 995 284	(9 158)	5 004 442	4 516 120	(3 447)	4 519 567
Retained earnings		3 640 034	(9 158)	3 649 192	3 101 603	(3 447)	3 105 050
Non-current liabilities		55 665	(3 561)	59 226	101 613	(1 341)	102 954
Deferred taxation liabilities	7.2	49 391	(3 561)	52 952	60 800	(1 341)	62 141
Current liabilities		3 646 434	19 832	3 626 602	2 695 214	11 784	2 683 430
Trade and other payables	3.2.1	3 537 505	19 832	3 517 673	2 613 591	11 784	2 601 807
Total equity and liabilities		8 697 383	7 113	8 690 270	7 312 947	6 996	7 305 951

Group income statement

	Notes	Restated 2017 R'000	Adjust-ments R'000	Reported 2017 R'000
Revenue	1.2	26 469 581	157 706	26 311 875
Changes in inventories of finished goods		(24 340 581)	(201 288)	(24 139 293)
Operating profit	1.3	1 174 890	(43 582)	1 218 472
Finance costs	1.4	(109 788)	193 239	(303 027)
Finance income	1.4	84 605	(157 589)	242 194
Net profit before taxation		1 144 966	(7 932)	1 152 898
Taxation	7.1	(329 816)	2 221	(332 037)
Net profit for the year		815 150	(5 711)	820 861
Net profit for the year attributable to:				
Equity holders of the parent		781 254	(5 711)	786 965
Earnings per share for profit attributable to:				
Equity holders (cents)				
– Basic	1.5	114.13	(0.84)	114.97
– Diluted	1.5	113.17	(0.83)	114.00

The change in accounting policy had no impact on the Group cash flow statement.

Annexure to the Group annual financial statements

For the year ended 31 May 2018

Shareholder spread	Number of shareholdings	%	Number of shares	%
1 – 1 000 shares	2 324	46.29	753 905	0.08
1 001 – 10 000 shares	1 724	34.34	6 318 222	0.67
10 001 – 100 000 shares	576	11.47	18 090 125	1.91
100 001 – 1 000 000 shares	257	5.12	93 815 950	9.91
1 000 001 shares and over	140	2.79	827 530 839	87.43
Totals	5 021	100.00	946 509 041	100.00
Distribution of shareholders				
Banks/Brokers	102	2.03	239 921 615	25.35
Close Corporations	48	0.96	3 782 858	0.40
Empowerment	1	0.02	6 863	0.00
Endowment Funds	19	0.38	2 198 178	0.23
Individuals	4 021	80.08	141 684 105	14.97
Insurance Companies	37	0.74	36 212 368	3.83
Investment Companies	13	0.26	11 821 484	1.25
Medical Schemes	14	0.28	1 367 937	0.14
Mutual Funds	194	3.86	234 666 162	24.79
Other Corporations	40	0.80	155 582	0.02
Private Companies	106	2.11	32 003 101	3.38
Public Companies	4	0.08	2 872 850	0.30
Retirement Funds	184	3.66	102 977 249	10.88
Strategic Investor	1	0.02	100 000 000	10.57
Treasury Stock	1	0.02	5 623 290	0.59
Trusts	236	4.70	31 215 399	3.30
Totals	5 021	100.00	946 509 041	100.00
Public/non-public shareholders				
Non-public shareholders	26	0.52	295 814 088	31.25
Directors and associates	24	0.48	190 190 798	20.09
Strategic holdings (more than 10%)	1	0.02	100 000 000	10.57
Treasury stock	1	0.02	5 623 290	0.59
Public shareholders	4 995	99.48	650 694 953	68.75
Totals	5 021	100.00	946 509 041	100.00

Beneficial shareholders holding 2% or more	Number of shares	%
Shotput Investments Proprietary Limited*	100 000 000	10.57
Levy, BM	84 711 164	8.95
Allan Gray and clients	81 698 686	8.63
Levy, MS	77 303 755	8.17
Old Mutual	58 248 231	6.15
Investec	36 084 415	3.81
Government Employees Pension Fund	33 349 272	3.52
Sanlam	29 290 023	3.09
MMI Holdings Ltd	27 652 835	2.92
Government Pension Fund – Norway	19 150 255	2.02
Totals	547 488 636	57.84

* *A discretionary trust, of which Kevin Ellerine is one of a number of potential beneficiaries, holds an interest in Shotput Investments Proprietary Limited. The indirect beneficial shareholding of Kevin Ellerine as disclosed per the Directors' Report refers to his effective shareholding in Ellerine Group Proprietary Limited.*

Notice of Annual General Meeting

Notice is hereby given to Blue Label shareholders recorded in the Company's securities register on Friday, 21 September 2018, that the eleventh Annual General Meeting (AGM) of shareholders of Blue Label Telecoms Limited will be held in the boardroom, Blue Label corporate offices, 75 Grayston Drive, Sandton, on Thursday, 29 November 2018 at 10:00 (South African time) (AGM), to conduct such business as may lawfully be dealt with at the AGM and to consider and, if deemed fit, pass, with or without modification, the ordinary and special resolutions set out hereunder in the manner required by the Companies Act 71 of 2008 (Act or Companies Act), as read with the Listings Requirements.

In terms of section 63(1) of the Act, meeting participants (including proxies) will be required to provide reasonably satisfactory identification before being entitled to participate in or vote at the AGM. Acceptable forms of identification include original and valid identity documents, driving licences and passports.

RECORD DATES, PROXIES AND VOTING

In terms of sections 59(1)(a) and (b) of the Act, the Board of the Company has set the record date for the purpose of determining which shareholders are entitled to:

- receive notice of the AGM (being the date on which a shareholder must be registered in the Company's shareholders' register in order to receive notice of the AGM) as Friday, 21 September 2018; and
- participate in and vote at the AGM (being the date on which a shareholder must be registered in the Company's shareholders' register in order to participate in and vote at the AGM) as Friday, 23 November 2018.

Certificated shareholders or own-name dematerialised shareholders may attend and vote at the AGM, or alternatively appoint a proxy to attend, speak and, in respect of the applicable resolution(s), vote in their stead by completing the attached form of proxy and returning it to the transfer secretaries at the address given in the form of proxy by no later than 09:00 on Tuesday, 27 November 2018.

Shareholders who have dematerialised their shares, other than those shareholders who have dematerialised their shares with own-name registration, should contact their CSDP or broker in the manner and within the time stipulated in the agreement entered into between them and their CSDP or broker: to furnish their voting instructions; or in the event that they wish to attend the AGM, to obtain the necessary letter of representation to do so.

On a show of hands, every shareholder present in person or represented by proxy and entitled to vote shall have only one vote irrespective of the number of shares such shareholder holds. On a poll, every shareholder, present in person or represented by proxy and entitled to vote, shall be entitled to that proportion of the total votes in the Company which the aggregate amount of the nominal value of the shares held by such shareholder bears to the aggregate amount of the nominal value of all shares issued by the Company.

Certificated shareholders or own-name dematerialised shareholders who are entitled to attend and vote at the AGM are entitled to appoint a proxy to attend, participate in and vote at the AGM in their stead. A proxy need not also be a shareholder of the Company. The completion of a form of proxy will not preclude a shareholder from attending the AGM.

ELECTRONIC PARTICIPATION

The Company will provide for electronic participation in the AGM, as set out in section 63 of the Act. Please refer to the notes on page 200 at the end of this notice.

When reading the resolutions below, please refer to the explanatory notes on pages 198 and 199.

PRESENTATION OF ANNUAL FINANCIAL STATEMENTS AND REPORTS

The audited Group annual financial statements, including the external auditor, Audit, Risk and Compliance Committee and Directors' reports for the year ended 31 May 2018, have been distributed as required and will be presented to shareholders at the AGM.

The complete set of audited Group annual financial statements, together with the above mentioned reports, are set out on pages 106 to 192 of the integrated annual report. The Audit, Risk and Compliance Committee's report is set out on pages 73 to 77 of the integrated annual report.

ORDINARY RESOLUTIONS

In terms of sections 62(3)(c) and 65(7) of the Act, unless otherwise specified, in order for each of the following ordinary resolutions to be passed, each resolution must be supported by more than 50% of the voting rights exercised.

1. **Ordinary resolution number 1: Re-election of Mr GD Harlow as a Director of the Company**
   Resolved that Mr GD Harlow, who was first appointed to the Board on 5 October 2007, and who retires in terms of the Memorandum of Incorporation (MOI), and who is eligible and available for re-election, is re-elected as a Director of the Company with immediate effect.

   A brief biography of Mr GD Harlow is on page 19.

2. **Ordinary resolution number 2: Re-election of Mr BM Levy as a Director of the Company**
   Resolved that Mr BM Levy, who was first appointed to the Board on 1 February 2007 and who retires in terms of the MOI, and who is eligible and available for re-election, is re-elected as a Director of the Company with immediate effect.

   A brief biography of Mr BM Levy is on page 18.

3. **Ordinary resolution number 3: Re-election of Mr SJ Vilakazi as a Director of the Company**
   Resolved that Mr SJ Vilakazi, who was first appointed to the Board on 19 October 2011 and who retires in terms of the MOI, and who is eligible and available for re-election, is re-elected as a Director of the Company with immediate effect.

   A brief biography of Mr SJ Vilakazi is on page 19.

4. **Ordinary resolution number 4: Reappointment of external auditor**
   Resolved that on the recommendation of the current Audit, Risk and Compliance Committee of the Company, PricewaterhouseCoopers Incorporated, is reappointed as independent registered auditor of the Company for the ensuing year until the conclusion of the next AGM of the Company.

5. **Ordinary resolution number 5: Election of Mr JS Mthimunye as a member and Chairman of the Audit, Risk and Compliance Committee for the year ending 31 May 2019**
   Resolved that, in terms of section 94(2) of the Act, Mr JS Mthimunye, an independent Non-Executive Director of the Company, is elected as a member of the Audit, Risk and Compliance Committee.

   A brief biography of Mr JS Mthimunye is on page 19.

6. **Ordinary resolution number 6: Election of Mr GD Harlow as a member of the Audit, Risk and Compliance Committee for the year ending 31 May 2019**
   Resolved that, in terms of section 94(2) of the Act, but subject to his re-election as a Director in terms of resolution number 1, Mr GD Harlow, an independent Non-Executive Director of the Company, is elected as a member of the Audit, Risk and Compliance Committee.

   A brief biography of Mr GD Harlow is on page 19.

7. **Ordinary resolution number 7: Election of Mr SJ Vilakazi as a member of the Audit, Risk and Compliance Committee for the year ending 31 May 2019**
   Resolved that, in terms of section 94(2) of the Act, but subject to his re-election as a Director in terms of resolution number 3, Mr SJ Vilakazi, an independent Non-Executive Director of the Company, is elected as a member of the Audit, Risk and Compliance Committee.

   A brief biography of Mr SJ Vilakazi is on page 19.

8. **Ordinary resolution number 8: Election of Ms P Mahanyele as a member of the Audit, Risk and Compliance Committee for the year ending 31 May 2019**
   Resolved that, in terms of section 94(2) of the Act, Ms P Mahanyele, an independent Non-Executive Director of the Company, is elected as a member of the Audit, Risk and Compliance Committee.

   A brief biography of Ms P Mahanyele is on page 19.

9. Ordinary resolution number 9: Non-binding advisory endorsement of Blue Label Telecoms Limited Group remuneration and reward policy

Resolved, by way of a non-binding advisory vote, that the Blue Label Telecoms Limited Group remuneration and reward policy (excluding the remuneration of Non-Executive Directors and the members of the statutory and Board committees for their services as Directors and members of committees) as set out in the remuneration report in the integrated annual report 2018 is endorsed.

10. Ordinary resolution number 10: Non-binding advisory endorsement of the Blue Label Telecoms Limited Group remuneration implementation report

Resolved, by way of a non-binding advisory vote, that the Blue Label Telecoms Limited Group remuneration implementation report set out in the remuneration report in the integrated annual report 2018 is endorsed.

11. Ordinary resolution number 11: Directors' authority to implement ordinary and special resolutions

Resolved that each and every Director of the Company is authorised to do all such things and sign all such documents as may be necessary for or incidental to the implementation of the ordinary and special resolutions passed at the AGM.

SPECIAL RESOLUTIONS

In terms of sections 62(3)(c) and 65(9) of the Act, the minimum percentage of voting rights required for each of the following special resolutions to be passed is 75% (seventy-five percent) of the voting rights exercised.

1. Special resolution number 1: Non-Executive Directors' remuneration

Resolved that in terms of section 66(9) of the Act, the following remuneration shall be payable to the Non-Executive Directors for their services as Directors for the period 1 June 2018 to 31 May 2019:

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

	Current fee 2018 R	Proposed fee 2019 R
Services as Directors		
– Chairman of the Board (per annum)	1 700 000	1 802 000
– Board members (per annum)	375 000	397 500
Audit, Risk and Compliance Committee		
– Chairman (per annum)	340 000	360 400
– Member (per annum)	210 000	222 600
Remuneration and Nomination Committee		
– Chairman remuneration (per annum)	200 000	212 000
– Chairman nomination (per annum)	140 000	148 400
– Member (per annum)	120 000	127 200
Investment Committee		
– Chairman (per annum)	200 000	212 000
– Member (per annum)	120 000	127 200
Transformation, Social and Ethics Committee		
– Chairman (per annum)	120 000	127 200
– Member (per annum)	75 000	79 500
Ad hoc Committee		
– Chairman (per meeting)	45 000	47 700
– Member (per meeting)	27 000	28 620

2. Special resolution number 2: General authority to repurchase shares

Resolved that pursuant to the MOI, the Company or any of its subsidiaries are hereby authorised by way of a general approval, from time to time, to acquire ordinary shares in the share capital of the Company in accordance with the Act and the Listings Requirements, provided that:

(a) the number of its own ordinary shares acquired by the Company in any one financial year shall not exceed 20% (twenty percent) of the ordinary shares in issue at the date on which this resolution is passed;
(b) this authority shall lapse on the earlier of the date of the next AGM of the Company or the date 15 (fifteen) months after the date on which this resolution is passed;
(c) the Board has resolved to authorise the acquisition and that the Group will satisfy the solvency and liquidity test immediately after the acquisition and that since the test there have been no material changes to the financial position of the Group;
(d) the acquisition must be effected through the order book operated by the JSE trading system and done without any prior understanding or arrangement between the Company and the counterparty;
(e) the Company only appoints one agent to effect any acquisition(s) on its behalf;
(f) the price paid per ordinary share may not be greater than 10% above the weighted average of the market value of the ordinary shares for the 5 (five) business days immediately preceding the date on which an acquisition is made;
(g) the number of shares acquired by subsidiaries of the Company shall not exceed 10% (ten percent) in the aggregate of the number of issued shares in the Company at the relevant times;
(h) the acquisition of shares by the Company or its subsidiaries may not be effected during a prohibited period, as defined in the Listings Requirements;
(i) an announcement containing full details of such acquisitions of shares will be published as soon as the Company and/or its subsidiaries have acquired shares constituting, on a cumulative basis 3% (three percent) of the number of shares in issue at the date of the meeting at which this special resolution is considered and if approved, passed, and for each 3% (three percent) in aggregate of the initial number (the number of that class of shares in issue at the time that the general authority from shareholders is granted) acquired thereafter; and
(j) an issuer or its subsidiary company may repurchase securities during a prohibited period as defined in paragraph 3.67 if they have in place a repurchase programme where the dates and quantities of securities to be traded during the relevant period are fixed (not subject to any variation) and has been submitted to the JSE in writing prior to the commencement of the prohibited period. The issuer must instruct an independent third party, which makes its investments decisions in relation to the issuer's, prior to the commencement of the prohibited period to execute the repurchase programme submitted to the JSE.

3. Special resolution number 3: Approval to grant financial assistance in terms of sections 44 and 45 of the Act

Resolved that the Board may, subject to the Act and the MOI, authorise the Company to provide direct or indirect financial assistance:

- by way of a loan, guarantee, the provision of security or otherwise to any person for the purpose of, or in connection with, the subscription of any option, or any securities, issued or to be issued by the Company or a related or inter-related company, or for the purchase of any securities of the Company or a related or inter-related company, as contemplated in section 44 of the Act, at any time during a period commencing on the date of passing of this special resolution and ending at the expiry of two years from the date of the adoption of this special resolution number 3; and/or
- to a Director of the Company or of a related or inter-related company, or to a related or inter-related company or corporation, or to a member of a related or inter-related corporation, or to a person related to any such company, corporation, director, prescribed officer or member, as contemplated in section 45 of the Act, at any time during a period commencing on the date of passing of this special resolution and ending at the expiry of two years from the date of the adoption of this special resolution number 3.

The Listings Requirements require, in terms of paragraph 11.26, the following disclosures, which appear in the integrated annual report:
Major shareholders – refer to page 193.

Material change – there were no material changes.

Share capital of the Company – refer to page 178.

Responsibility statement – refer to page 91.

By order of the Board

J van Eden
Group Company Secretary

Sandton

28 September 2018

Notice of Annual General Meeting continued

EXPLANATORY NOTES

Presentation of the annual financial statements

In terms of section 61(8)(a) of the Act, the Directors' report, audited Group annual financial statements for the immediately preceding financial year and the Audit, Risk and Compliance Committee report is to be presented to shareholders at the AGM.

Ordinary resolution numbers 1 to 3 (inclusive): Re-election of Directors

In accordance with the MOI, one-third of the Directors are required to retire at each AGM and may offer themselves for re-election. Messrs GD Harlow, BM Levy and SJ Vilakazi retire by rotation at the AGM in accordance with article 25.17 of the MOI, and have offered themselves for re-election.

Brief biographies of the Directors are on pages 18 and 19.

The Board is satisfied with the performance of each of the Directors standing for re-election and that they will continue to make an effective and valuable contribution to the Company and to the Board.

The Board recommends to shareholders that they should vote in favour of each of the re-election of the Directors referred to in ordinary resolution numbers 1 to 3 (inclusive).

Ordinary resolution number 4: Reappointment of external auditor

In terms of section 90(1) of the Act, each year at its AGM, the Company must appoint an auditor meeting the requirements of section 90(2) of the Act.

PricewaterhouseCoopers Incorporated (PwC) expressed its willingness to continue in office and this resolution proposes the reappointment of PwC as the Company's auditor until the next AGM. In addition, Mr D Storm is appointed as the individual registered auditor for the ensuing year as contemplated in section 90(3) of the Act.

The Audit, Risk and Compliance Committee has satisfied itself that the proposed auditor, PwC and Mr D Storm, are independent of the Company in accordance with sections 90 and 94 of the Act and the applicable rules of the International Federation of Accountants.

The Audit, Risk and Compliance Committee has recommended the reappointment of PwC as independent registered auditor of Blue Label for the 2018 financial year.

Ordinary resolution numbers 5 to 8 (inclusive): Election of Audit, Risk and Compliance Committee members

In terms of section 94(2) of the Act, each Audit Committee member must be elected by shareholders at its AGM. King IV likewise requires shareholders of a public company to elect each member of an audit committee at an AGM.

In terms of Regulation 42 of the Companies Regulations 2011, relating to the Act, at least one-third of the members of the Company's Audit, Risk and Compliance Committee at any particular time must have academic qualifications, or experience in economics, law, corporate governance, finance, accounting, commerce, industry, public affairs or human resource management. Each of the proposed members is duly qualified, as is evident from the biographies of each member, as contained on pages 18 and 19.

Ordinary resolution number 9: Non-binding advisory vote: Endorsement of the remuneration and reward policy

King IV requires a company to table its remuneration and reward policy for a non-binding advisory vote by shareholders at its AGM. This vote enables shareholders to endorse the remuneration policy adopted for Executive Directors. The Blue Label remuneration policy is contained on pages 79 to 89 of the integrated annual report 2018.

The advisory vote is of a non-binding nature only and therefore failure to pass this resolution will not have any legal consequences relating to existing arrangements. However, the Board will take cognisance of the outcome of the vote when considering the Company's remuneration and reward policy and the remuneration of Executive Directors. In the event that this non-binding advisory endorsement approving the Company's remuneration and reward policy is voted against by shareholders exercising 25% (twenty-five percent) or more of the voting rights exercised, the Company undertakes to engage with its shareholders in order to ascertain the reasons for objection, and to address appropriately legitimate and reasonable objections and concerns.

Ordinary resolution number 10: Non-binding advisory vote: Endorsement of the remuneration implementation report

King IV requires a company to table its remuneration implementation report for a non-binding advisory vote by shareholders at its AGM. This vote enables shareholders to endorse the remuneration implementation report for Executive Directors. The Blue Label remuneration implementation report is contained on pages 84 to 89 of the integrated annual report 2018.

The advisory vote is of a non-binding nature only and therefore failure to pass this resolution will not have any legal consequences relating to existing arrangements. However, the Board will take cognisance of the outcome of the vote when considering the Company's remuneration and reward policy and the remuneration of Executive Directors. In the event that this non-binding advisory endorsement approving the Company's remuneration implementation report is voted against by shareholders exercising 25% (twenty-five percent) or more of the voting rights exercised, the Company undertakes to engage with its shareholders in order to ascertain the reasons for objection, and to address appropriately legitimate and reasonable objections and concerns.

Ordinary resolution number 11: Directors' authority to implement ordinary and special resolutions

The reason for ordinary resolution number 11 is to authorise any Director of the Company to do all things necessary to implement the ordinary and special resolutions passed at the AGM and to sign all such documentation required to give effect and to record the ordinary and special resolutions.

Special resolution number 1: Non-Executive Directors' remuneration

Special resolution number 1 is proposed to enable the Company to comply with the provisions of sections 65(11)(h), 66(8) and 66(9) of the Act, which stipulate that remuneration to Directors for their services as Directors may be paid only in accordance with a special resolution approved by shareholders.

Special resolution number 2: General authority to repurchase shares

Special resolution number 2 seeks to allow the Group, by way of a general authority, to acquire its own issued shares (reducing the total number of ordinary shares of the Company in issue in the case of an acquisition by the Company of its own shares). This resolution is required in order to allow the Company to take advantage of any opportunity that presents itself to enhance shareholder value by repurchasing shares where the Company's share price is at a level which results in a share repurchase being to the benefit of shareholders. Any decision by the Directors to use the general authority to acquire shares of the Company will be taken with regard to the prevailing market conditions, share price, cash needs of the Group, together with various other factors, and in compliance with the Act, Listings Requirements and the MOI.

Special resolution number 3: Approval to grant financial assistance in terms of sections 44 and 45 of the Act

The existing authority granted by shareholders at the Annual General Meeting held on 8 December 2016 was valid for a two-year period and will expire at the AGM unless renewed.

In the ordinary course of the Company business, it needs to provide financial assistance to certain of its Group companies in accordance with section 45 of the Act, and furthermore it may be necessary for the Company to provide financial assistance in the circumstances contemplated in section 44 of the Act.

Notwithstanding the title of section 45 of the Act, being "Loans or other financial assistance to Directors", on a proper interpretation thereof, the body of the section also applies to financial assistance provided by a company to any related or inter-related company or corporation, a member of a related or inter-related corporation, and to a person related to any such company, corporation or member.

Furthermore, section 44 of the Act may also apply to the financial assistance so provided by a company to any related or inter-related company or corporation, a member of a related or inter-related corporation, or a person related to any such company, corporation or member, in the event that the financial assistance is provided for the purpose of, or in connection with, the subscription of any option, or any securities, issued or to be issued by the Company or a related or inter-related company, or for the purchase of any securities of the Company or a related or inter-related company.

Both sections 44 and 45 of the Act provide, inter alia, that the particular financial assistance may only be provided:

- pursuant to a special resolution of shareholders, adopted within the previous 2 (two) years, which approved such assistance either for the specific recipient, or generally for a category of potential recipients, and the specific recipient falls within that category; and
- the Board is satisfied that
  - immediately after providing the financial assistance, the Company would satisfy the solvency and liquidity test (as contemplated in the Act); and
  - the terms under which the financial assistance is proposed to be given are fair and reasonable to the Company.

Electronic participation at the AGM

(a) Shareholders wishing to participate electronically in the AGM are required to:
  (i) deliver written notice to the Company at 75 Grayston Drive, corner Benmore Road, Morningside Extension 5, 2196 (marked for the attention of the Group Company Secretary) that they wish to participate via electronic communication at the AGM; or
  (ii) register on the Company's website at **www.bluelabeltelecoms.co.za**, where a link to the registration page will be placed, by no later than 09:00 on Tuesday, 27 November 2018 (electronic notice).

(b) In order for the electronic notice to be valid it must contain:
  (i) where the Blue Label shareholder is an individual, a certified copy of his/her identity document and/or driving licence and/or passport;
  (ii) where the Blue Label shareholder is not an individual, a certified copy of a resolution or letter of representation by the relevant entity and a certified copy of the identity documents and/or passports of the persons who passed the relevant resolution or signed the relevant letter of representation. The letter of representation or resolution must set out from whom the relevant entity is authorised to represent the entity at the AGM via electronic communication;
  (iii) a valid e-mail address and/or facsimile number (contact address/number); and
  (iv) by no later than 24 (twenty-four) hours before the AGM the Company shall use its reasonable endeavours to notify a shareholder at its contact address/number of the relevant details through which the shareholder can participate via electronic communication.

(c) Should a shareholder wish to participate in the AGM by way of electronic communication as aforesaid, the shareholder, or his/her/its proxy/ies, will be required to dial-in on the date and commencement time of the AGM. The dial-in facility will be linked to the venue at which the AGM will take place. The dial-in facility will enable all persons to participate electronically in the AGM, save for voting, which should be done through normal voting procedures stipulated by your CSDP in this manner (and as contemplated in section 63(2) of the Act) and to communicate concurrently with each other without an intermediary, and to participate reasonably effectively in the AGM. The costs borne by the shareholder or his/her/its proxy/ies in relation to the dial-in facility will be for his/her/its own account.

Form of proxy

BLUE LABEL TELECOMS LIMITED
(Incorporated in the Republic of South Africa)
(Registration number: 2006/022679/06)
Share code: BLU ISIN: ZAE000109088
(Blue Label or the Company)

For use by certificated shareholders or own-name dematerialised shareholders at the Annual General Meeting of the Company to be held at 10:00 on Thursday, 29 November 2018 at the registered office of Blue Label, 75 Grayston Drive, corner Benmore Road, Morningside Extension 5, Johannesburg (AGM).

If dematerialised shareholders, other than own-name dematerialised shareholders have not been contacted by their CSDP or broker with regard to how they wish to cast their vote, they should contact their CSDP or broker and instruct their CSDP or broker as to how they wish to cast their vote at the AGM in order for their CSDP or broker to vote in accordance with such instructions. If dematerialised shareholders, other than own-name dematerialised shareholders, have not been contacted by their CSDP or broker it would be advisable for them to contact their CSDP or broker, as the case may be, and furnish them with their instructions. Dematerialised shareholders who are not own-name dematerialised shareholders and who wish to attend the AGM must obtain their necessary letter of representation from their CSDP or broker, as the case may be. This must be done in terms of the agreement entered into between the dematerialised shareholder and their CSDP or broker. If the CSDP or broker, as the case may be, does not obtain instructions from such dematerialised shareholders, it will be obliged to act in terms of the mandate furnished to it, or if the mandate is silent in this regard, to abstain from voting. Such dematerialised shareholders, other than own-name dematerialised shareholders, must not complete this form of proxy and should read note 10 of the overleaf.

Full name: I/We (BLOCK LETTERS)	of (address)
Telephone: (Work) (area code)	Telephone: (Home) (area code)
Fax: (area code)	Cell number:
being the holder(s) of	Blue Label shares hereby appoint:

1. or failing him/her,

2. or failing him/her,

3. the Chairman of the AGM, as my/our proxy to vote for me/us on my/our behalf at the AGM of Blue Label shareholders to be held at 10:00 on Thursday, 29 November 2018 or any adjournment thereof as follows:

Resolution		For	Against	Abstain
Ordinary resolution number 1:	Re-election of Mr GD Harlow as a Director of the Company			
Ordinary resolution number 2:	Re-election of Mr BM Levy as a Director of the Company			
Ordinary resolution number 3:	Re-election of Mr SJ Vilakazi as a Director of the Company			
Ordinary resolution number 4:	Reappointment of external auditor			
Ordinary resolution number 5:	Election of Mr JS Mthimunye as a member and Chairman of the Audit, Risk and Compliance Committee			
Ordinary resolution number 6:	Election of Mr GD Harlow as a member of the Audit, Risk and Compliance Committee			
Ordinary resolution number 7:	Election of Mr SJ Vilakazi as a member of the Audit, Risk and Compliance Committee			
Ordinary resolution number 8:	Election of Ms P Mahanyele as a member of the Audit, Risk and Compliance Committee			
Ordinary resolution number 9:	Non-binding advisory endorsement of the remuneration and reward policy			
Ordinary resolution number 10:	Non-binding advisory endorsement of the implementation report			
Ordinary resolution number 11:	Directors' authority to implement ordinary and special resolutions			
Special resolution number 1:	Non-Executive Directors' remuneration			
Special resolution number 2:	General authority to repurchase shares			
Special resolution number 3:	Approval to grant financial assistance in terms of sections 44 and 45 of the Act			

Signed at this day of 2018

Signature

Assisted by (if applicable)

Please read the notes on the reverse side hereof.
A shareholder entitled to attend and vote at the AGM may appoint one or more persons as his/her/its proxy to attend, speak or vote in his/her/its stead at the AGM. A proxy need not be a shareholder of the Company.

On a show of hands, every shareholder shall have one vote (irrespective of the number of shares held). On a poll, every shareholder shall have, for each share held by him/her/it that proportion of the total votes in the Company which the aggregate amount of the nominal value of that share held by him/her/it bears to the aggregate amount of the nominal value of all the shares issued by the Company.

Notes to the form of proxy

1. A shareholder may insert the name of a proxy or the names of two alternative proxies of his/her/its choice in the spaces provided with or without deleting "the Chairman of the AGM", but any such deletion must be initialled by the Blue Label shareholder. The person whose name appears first on the form of proxy and who is present at the AGM will be entitled to act as proxy to the exclusion of those whose names follow.
2. Please insert with an "X" or insert the number of shares in the relevant spaces according to how you wish your votes to be cast. If you wish to cast your votes in respect of a lesser number of Blue Label shares exercisable by you, insert the number of Blue Label shares held in respect of which you wish to vote. Failure to comply with the above will be deemed to authorise and compel the Chairman, if the Chairman is an authorised proxy, to vote in favour of the resolutions, or to authorise any other proxy to vote for or against the resolutions or abstain from voting as he/she/it deems fit, in respect of all the shareholders' votes exercisable thereat. A shareholder or his/her/its proxy is not obliged to use all the votes exercisable by the shareholder or his/her/its proxy, but the total of the votes cast and in respect whereof abstention is recorded may not exceed the total of the votes exercisable by the shareholder or his/her/its proxy.
3. For administrative purposes, forms of proxy must be lodged with the transfer secretaries, at Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196. (PO Box 61051, Marshalltown, 2107), to be received by no later than 10:00 on Tuesday, 27 November 2018. Should the form of proxy not be delivered to the Transfer Secretaries by this time, you will be required to furnish a copy of such form of proxy to the chairperson of the meeting before the appointed proxy exercises any of their rights at the meeting.
4. Any alteration or correction made to this form of proxy must be initialled by the signatory/ies.
5. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity must be attached to this form of proxy unless previously recorded by the transfer secretaries or waived by the Chairman of the AGM.
6. The completion and lodging of this form of proxy will not preclude the relevant shareholder from attending the AGM and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such shareholder wish to do so.
7. The Chairman of the AGM may accept or reject any form of proxy which is completed and/or received other than in accordance with these notes and instructions, provided that the Chairman is satisfied as to the manner in which the shareholder wishes to vote.
8. Where there are joint holders of shares:
   - 8.1 any such persons may vote at the AGM in respect of such joint shares as if he/she/it were solely entitled thereto;
   - 8.2 any one holder may sign this form of proxy; and
   - 8.3 if more than one such joint holders are present or represented at the AGM, the vote(s) of the senior shareholder (for that purpose seniority will be determined by the order in which the names of shareholders appear in the register) who tenders a vote (whether in person or by proxy) will be accepted to the exclusion of the vote(s) of the other joint shareholder(s).
9. Own-name dematerialised shareholders will be entitled to attend the AGM in person or, if they are unable to attend and wish to be represented thereat, must complete and return the attached form of proxy to the transfer secretaries in accordance with the time specified on the form of proxy.
10. Shareholders who hold shares through a nominee should advise their nominee or, if applicable, their CSDP or broker timeously of their intention to attend and vote at the AGM or to be represented by proxy thereat in order for their nominee or, if applicable, their CSDP or broker to provide them with the necessary letter of representation to do so or should provide their nominee or, if applicable, their CSDP or broker timeously with their voting instruction should they not wish to attend the AGM in person, in order for their nominee to vote in accordance with their instruction at the AGM.
11. A vote given in terms of an instrument of proxy shall be valid in relation to the AGM notwithstanding the death of the person granting it, the transfer of the shares in respect of which the vote is given, unless an intimation in writing of such death or transfer is received by the transfer secretaries, before the commencement of the AGM.
12. Where this form of proxy is signed under power of attorney, such power of attorney must accompany this form of proxy, unless previously recorded by the transfer secretaries or unless this requirement is waived by the Chairman of the AGM.
13. A minor or any other person under legal incapacity must be assisted by his/her parent or guardian, as applicable, unless the relevant documents establishing his/her capacity are produced or have been registered by Blue Label or the transfer secretaries.
14. Unless revoked, an appointment of a proxy pursuant to this form of proxy remains valid only until the end of the AGM or any postponement or adjournment of the AGM. This form of proxy shall be valid at any resumption of a postponed or adjourned meeting to which it relates although this form of proxy shall not be used at the resumption of the postponed or adjourned AGM if it could not be used at the AGM for any reason other than it was not lodged timeously for the AGM. This form of proxy shall, in addition to the authority conferred by the Act, except insofar as it provides otherwise, be deemed to confer the power generally to act at the meeting in question, subject to any specific direction contained in this form of proxy as to the manner of voting.

Glossary

Word	Definition
3G Mobile	3G Mobile Proprietary Limited, a private company which procures high-end branded mobile handsets for supply to Cell C and major retailers in South Africa and beyond. Its wholly owned subsidiary, Comm Equipment Company (CEC), provides the financing to Cell C for the mobile handset element of postpaid contracts
Act/the Act/Companies Act	Companies Act, No 71 of 2008, as amended from time to time
ADRs	American Depository Receipts
AEON	Blue Label's proprietary switch through which all transactional capability is accessed. Banking grade transactions are switched through the Postilion platform
AEON EVD	The Aeon Electronic Voucher Distribution platform is a central repository in which electronic (or virtual) stock is housed. It is referenced by other internal platforms like EVMS, AMS and AEON
AGM	Annual General Meeting
Airvantage	Airvantage, a private company whose Prepaid Airtime Advance System (PAS) offers Mobile Network Operators airtime, data and mobile money services: the ability to advance airtime, data or mobile money to subscribers
AMS	Airtime management system
ARCC	Audit, Risk and Compliance Committee
ARPU	Average revenue per user
B2B	Business-to-business, a commercial transaction between businesses
B2C	Business-to-consumer, a commercial transaction between a business and a consumer
B-BBEE	Broad-based black economic empowerment
BGCSA	Boys & Girls Clubs of South Africa
BLD	Blue Label Distribution Proprietary Limited
BLDS	Blue Label Data Solutions Proprietary Limited
BLM	Blue Label Mexico S.A. de C.V.
BLT	Blue Label Telecoms Limited
Blue Label/Blue Label Telecoms	Blue Label Telecoms Limited
Cell C	Cell C Proprietary Limited, launched operations in 2001, seven years after the launch of the two incumbents, Vodacom and MTN (launched in 1994)
CEO	Chief Executive Officer
CIO	Chief Information Officer
CIPC	Companies and Intellectual Property Commission
Company	Blue Label Telecoms Limited
content aggregator	An organisation which gathers web content and applications from different online sources for reuse and resale
CPA	Consumer Protection Act
CRC	Customer relation consultant
CRM	Customer relationship management
CSDP	Central Securities Depository Participant
CSI	Corporate social investment
CSR	Corporate social responsibility
disintermediation	Reduction in the use of intermediaries between network operators and consumers
distribution channels	For Blue Label, our distribution channels include retail and wholesale outlets, petroleum forecourts, informal retail outlets, individual merchants/entrepreneurs, corporates and independents (Mom & Pop stores)

Glossary continued

Word	Definition
DTH (TV)	Direct-to-home television, a method of receiving satellite television services
dti	Department of Trade and Industry
EAP	Economically Active Population
EBITDA	Earnings before interest, taxes, depreciation and amortisation
EEC	Employment Equity Committee, which reports to the Social, Ethics and Transformation Committee
EFT	Electronic funds transfer
e-tokens	Electronic tokens – a form of electronic cash used for secure transactions
Exco	Executive Committee
fintech	Technology businesses that compete against, enable and/or collaborate with financial institutions
GRI	Global Reporting Initiative. Established in 1997, with the mission of designing globally applicable guidelines for the preparation of enterprise level, sustainable development reports
Group	Blue Label Telecoms Limited and its subsidiaries, associates and joint ventures
IBC	Inside back cover
IC	Investment Committee
IoDSA	Institute of Directors in Southern Africa
Indian operations	Oxigen Services India, Oxigen Online and 2DFine
IRCC	Internal Risk and Compliance Committee
JSE	JSE Limited
JV	Joint venture
King IV	King IV Report on Corporate Governance for South Africa
KPMG	KPMG Services Proprietary Limited
LBS	Location-based services
LSM	Living standards measure
LTI	Long-term incentives
M-commerce	Mobile commerce
Main market	The informal, mostly rural, market in South Africa, from which the Group derives the bulk of its revenues
M&A	Mergers and acquisitions
MNO	Mobile network operator, such as Vodacom, MTN, Telkom and Cell C in South Africa
MoI	Memorandum of Incorporation
money remittances	The ability to transfer money to another individual without a bank account
NAV	Net asset value
NC	Nomination Committee, part of the Remuneration and Nomination Committee
NERA	National Empowerment Rating Agency
NPCI	National Payments Corporation of India, the national transactions switch
NQF	National Qualifications Framework, the system that records levels of learning activities
Oxigen/Oxigen India	Oxigen Services (India) Private Limited
Oxigen Online	Oxigen Online Services (India) Private Limited
physical prepaid airtime	Prepaid vouchers that are available as physical items
PINless top-up	E-token recharge directly to mobile phone via a POS device
POP	Points of presence

Word	Definition
PoPI	Protection of Personal Information Act
POS	Point of sale, usually a place or a device
PowerPin voucher	Offline prepaid electricity top-up, consolidates the purchase of prepaid electricity across national municipalities
PwC	PricewaterhouseCoopers Inc.
Reware	Reware is a distributor of certified pre-owned smartphones
RC	Remuneration Committee, part of the Remuneration and Nomination Committee
RNC/Remco	Remuneration and Nomination Committee
SAICA	South African Institute of Chartered Accountants
SBI	State Bank of India
SED	Socio-economic development
SHEQ	Safety, Health, Environment and Quality
SIM card	Subscriber identification module card
SMS	Short message service
spaza shop	An informal convenience outlet
SRI Index	Socially Responsible Investment Index
SSETA	Services Sector Education and Training Authorities
STI	Short-term incentives
TJ	Transaction Junction Proprietary Limited
touch points	Devices through which consumers are able to purchase Blue Label products and services
TPC	The Prepaid Company Proprietary Limited
transactional services	Includes money transfers, payments of bills and the like
unbanked	People without bank accounts
underbanked/badly banked	People with poor access to mainstream financial services, such as banks and therefore rely on alternative financial services or alternatively people with bank accounts who do not make effective use of the broader services offered by the bank – they merely deposit and withdraw cash from their accounts
UniPIN	Universal PIN for prepaid electricity
USSD	Unstructured supplementary service data
value added	Measure of wealth the Group has created in its operation by "adding value" to the cost of products and services
VAS	Value-added services
Viamedia	Viamedia Proprietary Limited
virtual distributor	Distribution of e-tokens of value in electronic format
virtual prepaid airtime	Airtime top-up in an electronic format
WAP	Wireless application protocol
WASP	Wireless application service provider
WASPA	Wireless Application Service Providers Association

Administration

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

Company Secretary
J van Eden

Sponsor
Investec Bank Limited

Auditors
PricewaterhouseCoopers Inc.

American Depository Receipt (ADR) programme
Cusip No.: 095648101
Ticker name: BULBY
ADR to ordinary share: 1:10
Depository:
BNY Mellon
101 Barclay Street
New York NY, 10286
USA

Blue Label Telecoms Limited
(Incorporated in the Republic of South Africa)
(Registration number 2006/022679/06)

Registered address:	75 Grayston Drive, corner Benmore Road, Morningside Ext 5, Sandton, 2196
Postal address:	PO Box 652261, Benmore, 2010
Contacts:	+27 11 523 3000/info@blts.co.za/www.bluelabeltelecoms.co.za
LinkedIn:	Blue Label Telecoms
Facebook:	www.facebook.com/BlueLabelTelecoms
Twitter:	@BlueLabelTeleco
Instagram:	bluelabeltelecoms
Youtube:	Blue Label Telecoms

JSE share code
BLU

ISIN
ZAE000109088
("Blue Label" or "BLT" or "the Company" or "the Group")

Bastion


blu
approved
Available here
SIMS
Get More,
Do More!
vodacom
www.bluelabeltelecoms.co.za