Notes to the Group annual financial statements

For the year ended 31 May 2019

1. RESULTS OF OPERATIONS

1.1 Segmental summary

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

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

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

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

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

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

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

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

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

1. RESULTS OF OPERATIONS continued

1.1 Segmental summary continued

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

- Africa Distribution, which includes the distribution of prepaid airtime, starter packs and electricity of the South African network operators and utility suppliers, and the distribution of handsets, tablets and other devices within South Africa and certain African countries.
- International, which includes distribution of prepaid airtime in Mexico and the venture capital investment of Oxigen Services India (refer to note 2.1).
- Mobile, which includes the provision of a complete mobile transactional ecosystem and services provisioning platform delivering mobile-centric products and services through any mobile channel, including location-based and WASP services, and music and digital content provision.
- Solutions, which includes marketing of cellular and financial products and services through outbound telemarketing and other channels, provides inbound customer care and technical support, and markets data and analytics services.
- Corporate, which performs the head office administration function.

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

Core net profit and core headline earnings

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

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