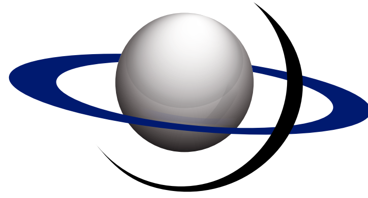

BLUE LABEL

TELECOMS

Annual financial statements 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

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 by rule, including the approval of non-audit services;
- resolve any disagreements between management and the auditor regarding financial reporting;
- retain independent counsel, accountants, or others to advise the Committee or assist in the conduct of an investigation;
- seek any information it requires from employees – all of whom are directed to cooperate with the committee's requests – or external parties; and
- meet with the organisation's officers, external auditors, or outside counsel as necessary.

Membership and meetings held

In accordance with the requirements of the Companies Act, No 71 of 2008 (the Act) Messrs JS Mthimunye, GD Harlow, 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 Company and Group on the basis of review of the annual financial statements and the information available to the Committee and recommended such going concern status for adoption by the Board. The Board statement on the going concern status of the Group and Company is contained on page 75 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.

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.

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Audit, Risk and Compliance Committee's report continued

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 recommended the approval of the adoption of the annual financial statements to the Board.

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

On behalf of the Audit, Risk and Compliance Committee

JS Mthimunye
Chairman
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	**—**	—	**—**	—

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
- 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

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 20 to 106 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 (ISAs). 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.

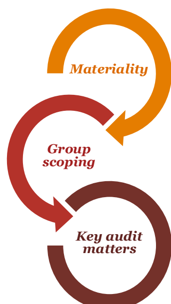
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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).

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.

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

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.

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

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.

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

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.

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

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 532 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 their 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 their 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 their 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.*

Group statement of changes in equity continued

For the year ended 31 May 2018

	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

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

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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.*

Notes to the Group annual financial statements continued

For the year ended 31 May 2018

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 R'000	Restated 2017 R'000
(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 their equity-settled share scheme.

	2018 R'000	Restated 2017 R'000
(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)
Transaction costs on acquisition of associates	**(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 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.

These 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 3rd 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 Mauritius	Content provider 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

** Less than R1 000.*

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

** Less than R1 000.*

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.

Notes to the Group annual financial statements continued

For the year ended 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*.

Notes to the Group annual financial statements continued

For the year ended 31 May 2018

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 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 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, 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 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

Notes to the Group annual financial statements continued

For the year ended 31 May 2018

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 use 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	
	2018	2017
NCI %	40	40
	R'000	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

Notes to the Group annual financial statements continued

For the year ended 31 May 2018

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 have 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 have 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 which the Group has a relationship with 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) 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	**2018 R'000**	2017 R'000
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.

Notes to the Group annual financial statements continued

For the year ended 31 May 2018

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 – 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.

Notes to the Group annual financial statements continued

For the year ended 31 May 2018

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

	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.

	2018 R'000	2017 R'000
7.3 Taxation paid		
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

Notes to the Group annual financial statements continued

For the year ended 31 May 2018

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 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 leases 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 – 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.

Notes to the Group annual financial statements continued

For the year ended 31 May 2018

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.*

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
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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