BLUE LABEL
TELECOMS

Results for the year ended 31 May 2018

Highlights

Increase in revenue to **R26.8 billion***

Increase in gross profit of 7% to **R2.28 billion**

Increase in EBITDA of 4% to **R1.34 billion**

Increase in core headline earnings of 30% to **R1.03 billion**

Increase in core headline earnings per share of 4% to **R120.61 cents**

Increase in cash generated from operating activities to **R3.2 billion**

* *On inclusion of the gross amount generated on "PINless top-ups", the effective increase equated to 9%.*

Commentary

Overview

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

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

The core headline earnings comprised the Group's share of profits of R569 million in Cell C which included the recognition of an increase in a deferred tax asset of R1.92 billion, of which the Group's 45% share amounted to R865 million, its profit contributions from 3G Mobile of R157 million and from Airvantage of R2.6 million. These contributions were from the effective dates of each acquisition and not for a full year. The balance of earnings pertained to the remaining companies within the Group, inclusive of a derivative fair value gain of R3.7 million and once-off costs of imputed IFRS interest adjustments of R65 million attributable to the acquisitions of 3G Mobile and Airvantage. A further R28 million pertained to interest and costs relating to the 3G Mobile acquisition.

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

The investments in Oxigen Services India, Oxigen Online Services India (collectively, "Oxigen Services India") and 2DFine Holdings Mauritius ("2DFine") were accounted for as investments in associates and joint venture, applying the equity method up until 30 November 2016. Thereafter, these entities are accounted for as venture capital investments at fair value. The net effect thereof, resulted in a positive contribution to Group earnings of R35 million in the comparative year. In the current year, a downward fair value movement of R173 million less deferred taxation of R3 million thereon, which together with a net loan impairment of R87 million resulted in a negative impact of R257 million on Group earnings.

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

	May 2018 R'000	May 2017 R'000	Growth R'000	Growth %
EPS (cents)	**116.12**	114.13	1.99	2
Core headline earnings	**1 032 016**	795 684	263 332	30
Core HEPS (cents)	**120.61**	116.24	4.36	4
Core headline earnings adjusted for:				
Share of losses, fair value loss and loan impairments from Oxigen	**256 941**	(35 484)		
Share of profits from Cell C	**(569 475)**	–		
Profit contribution from 3G Mobile	**(156 722)**	–		
Profit contribution from Airvantage	**(2 627)**	–		
Fair value gain on financial instruments	**(3 688)**			
Present value interest expense relating to 3G Mobile/Airvantage	**64 525**	–		
Transaction interest and costs relating to 3G Mobile acquisition	**28 128**	–		
Cessation of settlement discounts and interest forfeiture	**216 604**	–		
Once-off winding up cost of Africa Prepaid Services Group	**20 737**	–		
Adjusted core headline earnings	**886 439**	760 200	126 239	17
Adjusted core HEPS (cents)	**132.56**	113.91	18.65	16

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

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

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

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

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

Segmental report

Africa Distribution

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

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

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

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

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

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

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

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

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

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

For the 10 months ended May 2018, Cell C's net profit amounted to R1.14 billion. This comprised trading losses of R782 million offset by the recognition of a deferred tax asset amounting to R1.92 billion. The Group's share of this net profit is R512 million. BLT's accounting policies exclude equity settled share-based payment charges from its associates and we have not early adopted IFRS 15 and IFRS16. Thus an adjustment of R65 million and negative R6 million respectively is required.

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

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

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

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

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

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

International

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

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

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

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

Oxigen Services India and 2DFine

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

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

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

Blue Label Mexico

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

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

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

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

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

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

Mobile

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

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

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

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

Solutions

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

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

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

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

Corporate

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

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

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

DEPRECIATION, AMORTISATION AND IMPAIRMENT CHARGES

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

NET FINANCE COSTS

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

Finance costs

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

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

Finance income

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

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

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

STATEMENT OF FINANCIAL POSITION

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

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

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

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

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

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

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

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

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

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

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

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

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

STATEMENT OF CASH FLOWS

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

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

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

FORFEITABLE SHARE SCHEME

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

DIVIDENDS

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

SHARE BUYBACK

The Board has approved a share buyback programme.

SUBSEQUENT EVENTS

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

On 2 August 2018, Cell C procured R1.4 billion of funding from a consortium of financial institutions for a tenure of 12 months, secured by airtime to the value of R1.75 billion. In the event of default, TPC has undertaken to purchase such inventory from the consortium on a piecemeal basis over a specified period that has been agreed upon. Any shortfall of this purchase would be in lieu of purchases made from Cell C within that period. The payment terms as between TPC and Cell C on the normal Cell C trading account would be extended by 120 days, ensuring that TPC will not be at any risk of having to purchase airtime in excess of its monthly requirements.

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

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

PROSPECTS

The Group is accelerating its programme of providing point of sale devices to traders within the informal market and hereby enable them to distribute Blue Label's product offerings.

Blue Label is one of the primary distribution channels for Cell C products and services. The investment in Cell C provides opportunities to realise synergies and enhance product distribution initiatives.

3G Mobile continues to expand its handset financing model to include other products.

Airvantage has concluded an agreement with a large network operator in Brazil, where it will replicate its business model.

Blue Label Mexico is seeing consistent growth in revenue, improved gross profit margins and compounding annuity revenue generated from starter pack sales. This is expected to result in a positive contribution to Group earnings within the year ahead.

INDEPENDENT AUDIT

These summary consolidated financial statements for the year ended 31 May 2018 have been audited by PricewaterhouseCoopers Inc., who expressed an unmodified opinion thereon. The auditor also expressed an unmodified opinion on the consolidated annual financial statements from which these summary consolidated financial statements were derived.

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

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

APPRECIATION

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

For and on behalf of the Board

LM Nestadt
Chairman

BM Levy and MS Levy
Joint Chief Executive Officers

DA Suntup* CA(SA)
Financial Director

21 August 2018

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

Independent auditor's report on summarised consolidated financial statements

To the shareholders of Blue Label Telecoms Limited

Opinion

The summary consolidated financial statements of Blue Label Telecoms Limited, contained in the accompanying provisional report, which comprise the summary consolidated statement of financial position as at 31 May 2018, the summary consolidated income statement, summary consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and related notes, are derived from the audited consolidated financial statements of Blue Label Telecoms Limited for the year ended 31 May 2018.

In our opinion, the accompanying summary consolidated financial statements are consistent, in all material respects, with the audited consolidated financial statements, in accordance with the requirements of the JSE Limited Listings Requirements for provisional reports, as set out on page 26 of the summary consolidated financial statements, and the requirements of the Companies Act of South Africa as applicable to summary financial statements.

Summary consolidated financial statements

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

The audited consolidated financial statements and our report thereon

We expressed an unmodified audit opinion on the audited consolidated financial statements in our report dated 21 August 2018. That report also includes communication of key audit matters. Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period.

Directors' responsibility for the summary consolidated financial statements

The directors are responsible for the preparation of the summary consolidated financial statements in accordance with the requirements of the JSE Limited Listings Requirements for provisional reports, as set out in the basis of preparation paragraph on page 26 of the summary consolidated financial statements, and the requirements of the Companies Act of South Africa as applicable to summary financial statements.

Auditor's responsibility

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

Other matters

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

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: D Storm
Registered Auditor

Johannesburg
21 August 2018

Summarised Group statement of comprehensive income

For the year ended 31 May

	2018 R'000	Restated* 2017 R'000
Revenue	**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	**(524 187)**	(452 985)
Depreciation, amortisation and impairment charges	**(242 604)**	(112 851)
Other expenses	**(499 456)**	(405 088)
Operating profit	**1 097 549**	1 174 890
Finance costs	**(306 636)**	(109 788)
Finance income	**195 298**	84 605
(Loss)/gain on associates and joint ventures measured at fair value	**(173 645)**	160 200
Share of gains/(losses) from associates and joint ventures	**565 812**	(164 941)
Net profit before taxation	**1 378 378**	1 144 966
Taxation	**(331 069)**	(329 816)
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
Net profit for the year attributable to:		
Equity holders of the parent	**993 624**	781 254
Non-controlling interest	**53 685**	33 896
Total comprehensive income for the year attributable to:		
Equity holders of the parent	**971 250**	700 685
Non-controlling interest	**53 220**	31 989

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

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

Share performance

For the year ended 31 May

	2018 R'000	Restated* 2017 R'000
Earnings per share for profit attributable to equity holders		
Basic earnings per share (cents)	**116.12**	114.13
Diluted earnings per share (cents)**	**108.10**	113.17
Weighted average number of shares	**855 686 588**	684 508 496
Diluted weighted average number of shares	**860 487 563**	690 322 107
Number of shares in issue	**946 509 041**	674 509 042
Share performance		
Headline earnings per share (cents)	**115.42**	114.19
Diluted headline earnings per share (cents)**	**107.41**	113.22
Dividend per share (cents)	**40**	36
Reconciliation between net profit and core headline earnings for the year:		
Net profit for the year attributable to equity holders of the parent	**993 624**	781 254
Amortisation on intangible assets raised through business combinations net of tax and net of non-controlling interest	**44 345**	14 069
Core net profit for the year	**1 037 969**	795 323
Headline earnings adjustments	**(5 953)**	362
Core headline earnings	**1 032 016**	795 685
Core headline earnings per share (cents)***	**120.61**	116.24

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

** *Diluted earnings per share and diluted headline earnings per share are calculated by adjusting the weighted average number of ordinary shares outstanding for the number of shares that would be issued on vesting under the employee forfeitable share plan.*

*** *Core headline earnings per share is calculated after adding back to headline earnings, the amortisation of intangible assets as a consequence of the purchase price allocations completed in terms of IFRS 3(R)* – Business Combinations.

Summarised Group statement of financial position

As at 31 May 2018

	2018 Audited R'000	Restated* 2017 Audited R'000	Restated* 2016 Audited R'000
ASSETS			
Non-current assets	**9 404 315**	2 198 757	2 275 161
Property, plant and equipment	**137 120**	111 599	100 434
Intangible assets	**1 076 871**	511 164	598 333
Goodwill	**1 036 243**	604 590	603 440
Investments in and loans to associates and joint ventures	**6 398 305**	315 833	910 567
Investments in and loans to venture capital associates and joint ventures	**277 835**	544 165	–
Loans receivable	**53 270**	36 851	5 910
Starter pack assets	**5 541**	5 346	6 099
Trade and other receivables	**373 907**	42 512	29 166
Deferred taxation assets	**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	**1 029 626**	–	–
Inventories	**597 946**	2 180 121	1 658 860
Loans receivable	**207 799**	188 229	98 217
Trade and other receivables	**5 529 877**	2 766 110	2 686 019
Financial asset at fair value through profit and loss	**168 144**	–	–
Current tax assets	**43 942**	12 135	4 087
Cash and cash equivalents	**947 888**	1 350 666	589 027
Total assets	**17 930 951**	8 697 383	7 312 947
EQUITY AND LIABILITIES	**9 506 642**	4 995 284	4 516 120
Capital and reserves			
Share capital, share premium and treasury shares	**7 844 847**	3 953 871	3 942 512
Restructuring reserve	**(1 843 912)**	(1 843 912)	(1 843 912)
Other reserves	**84 662**	107 036	187 605
Transactions with non-controlling interest reserve	**(1 069 268)**	(975 302)	(965 861)
Share-based payment reserve	**49 542**	46 420	42 039
Retained earnings	**4 283 854**	3 640 034	3 101 603
	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	113 397
Deferred taxation liabilities	**229 100**	49 391	60 800
Borrowings	**1 514 140**	–	–
Trade and other payables	**2 550**	6 274	52 597
Current liabilities	**6 678 519**	3 646 434	2 683 430
Trade and other payables	**5 086 196**	3 537 505	2 601 807
Provisions	**39 628**	35 071	24 928
Financial liabilities at fair value through profit and loss	**45 360**	–	–
Current tax liabilities	**50 367**	55 832	40 608
Borrowings	**1 456 968**	18 026	16 087
Total equity and liabilities	**17 930 951**	8 697 383	7 312 947

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

Summarised Group statement of cash flows

For the year ended 31 May 2018

	2018 Audited R'000	2017 Audited R'000
Cash generated by operations	**3 588 780**	1 753 991
Interest received	**154 952**	52 300
Interest paid	**(187 489)**	(105 518)
Taxation paid	**(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	**(31 183)**	(55 987)
Acquisition of property, plant and equipment	**(71 640)**	(57 293)
Acquisition of subsidiary net of cash acquired	**(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	**(117 037)**	–
Loan granted to Cell C	**(1 017 522)**	–
Loans advanced to associates and joint ventures	**(31 641)**	(22 224)
Loans granted	**(54 981)**	(141 917)
Loans receivable repaid	**78 329**	24 649
Settlement of contingent consideration	**(27 867)**	(50 666)
Contingent proceeds received	**–**	12 839
Other investing activities	**10 737**	2 416
Net cash utilised in investing activities	**(7 758 379)**	(320 476)
Cash flows from financing activities		
Interest-bearing borrowings raised	**935 442**	–
Proceeds from shares issued	**3 650 000**	–
Transaction costs on share issue	**(12 424)**	–
Acquisition of treasury shares	**(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)
Other financing activities	**(58)**	(2 803)
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	**947 888**	1 350 666

Summarised Group statement of changes in equity

For the year ended 31 May 2018

	Share capital, share premium and treasury shares Audited R'000	Retained earnings Audited R'000
Balance as at 31 May 2016	3 942 512	3 105 050
Restatement due to adoption of accounting policy*	–	(3 447)
Restated balance as at 31 May 2016*	3 942 512	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	(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*	**3 953 871**	**3 640 034**
Net profit for the year	**–**	**993 624**
Other comprehensive income/(loss)	**–**	**–**
Total comprehensive income/(loss)	**–**	**993 624**
Treasury shares purchased	**(28 846)**	**–**
Shares issued	**3 932 834**	**–**
Transaction costs on shares issued	**(34 663)**	**–**
Equity compensation benefit scheme shares vested	**21 651**	**–**
Equity compensation benefit movement	**–**	**–**
Transaction with non-controlling interest reserve movement	**–**	**–**
B-BBEE transaction	**–**	**–**
Non-controlling interest acquired	**–**	**–**
Non-controlling interest disposed of	**–**	**–**
Dividends paid	**–**	**(349 804)**
Balance as at 31 May 2018	**7 844 847**	**4 283 854**

[1] *Other reserves include foreign currency translation reserve and the non-distributable reserve.*
[2] *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.*
[3] *Includes employee equity compensation benefit reserve.*
[4] *The B-BBEE transaction was 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 a put option that the Group has on the remaining 40% shareholding in Airvantage.*
* *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.*

Restructuring reserve Audited R'000	Other reserves[1] Audited R'000	Transactions with non-controlling interest reserve[2] Audited R'000	Share based payment reserve[3] Audited R'000	Non-controlling interest Audited R'000	Total equity Audited R'000
(1 843 912)	187 605	(965 861)	42 039	52 134	4 519 567
–	–	–	–	–	(3 447)
(1 843 912)	187 605	(965 861)	42 039	52 134	4 516 120
–	–		–	33 896	815 150
–	(80 569)	–	–	(1 907)	(82 476)
–	(80 569)		–	31 989	732 674
–	–	–	–	–	(7 381)
–	–	–	(18 486)	(254)	–
–	–	–	22 867	550	23 417
–	–	(9 441)	–	9 441	–
–	–	–	–	65	65
–	–	–	–	(26 788)	(269 611)
(1 843 912)	**107 036**	**(975 302)**	**46 420**	**67 137**	**4 995 284**
–	**–**	**–**	**–**	**53 685**	**1 047 309**
–	**(22 374)**	**–**	**–**	**(465)**	**(22 839)**
–	**(22 374)**	**–**	**–**	**53 220**	**1 024 470**
–	**–**	**–**	**–**	**–**	**(28 846)**
–	**–**	**–**	**–**	**–**	**3 932 834**
–	**–**	**–**	**–**	**–**	**(34 663)**
–	**–**	**–**	**(21 362)**	**(289)**	**–**
–	**–**	**–**	**23 084**	**778**	**23 862**
–	**–**	**(93 966)[5]**	**–**	**–**	**(93 966)**
–	**–**	**–**	**1 400[4]**	**–**	**1 400**
–	**–**	**–**	**–**	**66 645**	**66 645**
–	**–**	**–**	**–**	**(2 824)**	**(2 824)**
–	**–**	**–**	**–**	**(27 750)**	**(377 554)**
(1 843 912)	**84 662**	**(1 069 268)**	**49 542**	**156 917**	**9 506 642**

Summarised segmental summary

Year ended 31 May 2018	Total Audited R'000	Africa Distribution Audited R'000
Total segment revenue	**33 633 266**	**32 897 392**
Internal revenue	**(6 833 001)**	**(6 652 186)**
Revenue	**26 800 265**	**26 245 206**
Operating profit/(loss) before depreciation, amortisation and impairment charges	**1 340 153**	**1 344 824**
Net profit/(loss) for the year attributable to equity holders of the parent	**993 624**	**1 344 642**
Amortisation on intangibles raised through business combinations net of tax and non-controlling interest	**44 345**	**40 852**
Headline earnings adjustments net of non-controlling interest	**(5 953)**	**(755)**
Core headline earnings for the year attributable to equity holders of the parent	**1 032 016**	**1 384 739**
At 31 May 2018		
Total assets	**17 930 951**	**16 671 589**
Net operating assets/(liabilities)	**1 848 117**	**1 758 210**

Year ended 31 May 2017	Audited R'000	Audited R'000
Total segment revenue	32 881 775	32 216 378
Internal revenue	(6 412 194)	(6 272 276)
Revenue	26 469 581	25 944 102
Operating profit/(loss) before depreciation, amortisation and impairment charges	1 287 741	1 344 714
Net profit/(loss) for the year attributable to equity holders of the parent	781 254	877 831
Amortisation on intangibles raised through business combinations net of tax and non-controlling interest	14 069	9 564
Headline earnings adjustments net of non-controlling interest	362	22
Core headline earnings for the year attributable to equity holders of the parent	795 685	887 417
At 31 May 2017		
Total assets	8 697 313	7 208 640
Net operating assets/(liabilities)	2 852 192	2 750 032

International Audited R'000	Mobile Audited R'000	Solutions Audited R'000	Corporate Audited R'000
–	**370 358**	**196 762**	**168 754**
–	**(10 388)**	**(1 673)**	**(168 754)**
–	**359 970**	**195 089**	**–**
(2 903)	**101 883**	**42 838**	**(146 489)**
(227 000)	**57 609**	**29 836**	**(211 463)**
1 549	**1 944**	**–**	**–**
(5 164)	**126**	**(22)**	**(138)**
(230 615)	**59 679**	**29 814**	**(211 601)**
518 045	**561 330**	**146 672**	**33 315**
94 701	**62 036**	**36 780**	**(103 610)**

Audited R'000	Audited R'000	Audited R'000	Audited R'000
–	361 754	178 286	125 357
–	(13 896)	(665)	(125 357)
–	347 858	177 621	–
(31 792)	99 101	34 020	(158 302)
(19 072)	53 681	18 956	(150 142)
1 859	2 646	–	–
339	(38)	–	39
(16 874)	56 289	18 956	(150 103)
743 530	593 595	141 100	10 518
10 424	103 458	45 517	(57 239)

Headline earnings

For the year ended 31 May

	2018 Audited R'000	Restated 2017 Audited R'000
Profit attributable to equity holders of the parent	**993 624**	781 254
(Profit)/loss on disposal of property, plant and equipment	**(1 272)**	23
Impairment of property, plant and equipment	**2 736**	–
Impairment of intangible assets	**243**	–
Foreign currency translation reserve recycled to profit or loss	**(3 097)**	–
Profit on disposal of subsidiary	**(2 824)**	–
Profit on disposal of property, plant and equipment in associate	**(12 075)**	–
Impairment of property, plant and equipment in associate	**–**	–
Impairment of intangible assets in associate	**10 336**	339
Headline earnings	**987 671**	781 616
Headline earnings per share (cents)	**115.42**	114.19

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

Financial instruments

For the year ended 31 May

Financial asset at fair value through profit and loss

	Bond notes Audited R'000	Liquidity Support Audited R'000	Other Audited R'000	Total Audited R'000
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, TPC purchased bond notes, issued by Cedar Cellular Investments 1 Proprietary Limited ("SPV1"), from Saudi Oger Limited with a capital redemption value of USD42 million and with a coupon rate of 8.625% per annum for a purchase consideration of USD18 million. TPC was entitled to assign its rights and obligations, in whole or in part, to a nominee. Accordingly, it has assigned such rights and obligations in respect of 50% of the bond notes, resulting in an effective purchase consideration of USD9 million with a capital redemption value of USD21 million.

Liquidity support

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

Fair value estimate

SPV1 and SPV2 own 11.8% and 16%of the shares issued by Cell C respectively . No other assets are held by these entities, and as such the Group's bond note and liquidity support arrangements will be settled only when the value of the Cell C shares are realised by SPV1 and SPV2. The substance of these arrangements are therefore derivatives exposing the Group to the share price of Cell C. Blue Label has a further revisionary pledge amounting to 5% of the shares issued by Cell C relating to the Group's exposure in SPV2.

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

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

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

The breakeven valuation of Cell C is R18.60 billion, which represents the minimum valuation of Cell C required before a collective fair value loss would be recognised on the derivatives. The following table represents the sensitivity of the valuation of Cell C 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)**

Financial liabilities

Contingent consideration

Contingent considerations, included in trade and other payables, are level 3 financial liabilities.

Changes in level 3 instruments are as follows:

	2018 Audited R'000	2017 Audited 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 or 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 or losses recognised in profit or loss for liabilities held at the end of the reporting period	**800**	5 304

The fair value of the contingent consideration is estimated by applying the income approach. The fair value is based on the discount rates applicable to the Group and management's probability assumptions on certain warranties being achieved. There have been changes in management's probability assumptions in respect of certain of the companies. The resulting changes in the fair values are accounted for in other income in the statement of comprehensive income. The discount rate has been increased in line with the increase in the prime lending rate. The resulting changes in the fair values are accounted for in finance costs in the statement of comprehensive 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	93 966	–
Remeasurements recognised in the income statement	3 981	–
Closing balance	97 947	–

Acquisition of Airvantage

This relates to a put option that the Group has on the remaining 40% shareholding in Airvantage. 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 the 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

	2018 R'000
Increase/(decrease) in put option liabilities and loss/(gain) in the income statement	
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

The investment in Oxigen Services India, Oxigen Online and 2DFine Holdings Mauritius are viewed as venture capital investments and accounted for at fair value, and are level 3 instruments. Refer to "investment and loans to venture capital associates and joint venture."

The Group has not disclosed the fair values of all financial instruments measured at amortised cost, as its carrying amounts closely approximate its fair values.

Investments in and loans to venture capital associates and joint venture

	2018 Audited R'000	2017 Audited R'000
Venture capital associates and joint venture	**142 981**	291 550
Loan to venture capital associates and joint venture	**134 854**	252 615
	277 835	544 165

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 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 difference 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 additional changes in the fair value have been recognised in the Group statement of comprehensive income.

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 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 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 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*.

The loans to 2DFine 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.

The fair value of Oxigen Services India, Oxigen Online and the 2DFine group as at 31 May 2018 has declined due to lack of funding. This has resulted in Oxigen Online and 2DFine being carried at Rnil. Although negotiations remain in progress with potential investors, until such time as a transaction is completed, the lack of cash resources will inhibit its propensity for growth through the roll out of a significant number of micro-ATM terminals. The latter is the essence of its ability to generate growth in the market value of the investment therein and is the cause of the necessity to reduce the fair value of the Oxigen group.

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 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)

Significant related party transactions and balances

For the year ended 31 May

	2018 Audited R'000	2017 Audited R'000
Sales to related parties		
Cell C Limited	**1 100 788**	–
Purchases from related parties		
Cell C Limited	**4 873 215**	–
Interest received from related parties		
2DFine Holdings Mauritius	**21 736**	21 159
Cell C Limited	**96 380**	–
Loans to related parties		
2DFine Holdings Mauritius	**100 837**	218 305
Cell C Limited	**1 029 626**	–
Lornanox Proprietary Limited trading as Edgars Connect	**79 249**	75 209
Oxigen Services India Private Limited	**34 017**	34 310
ZOK Cellular Proprietary Limited	**19 768**	26 364
Amounts due from related parties included in trade receivables		
3G Mobile (Botswana) Proprietary Limited	**31 688**	–
Cell C Limited	**2 623 194**	–
Lornanox Proprietary Limited	**35 528**	13 676
Amounts due to related parties included in trade payables		
3G Mobile (Botswana) Proprietary Limited	**30 799**	–
Cell C Limited	**1 573 472**	–

Subsequent events

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

On 2 August 2018, Cell C procured R1.4 billion of funding from a consortium of financial institutions for a tenure of 12 months, secured by airtime to the value of R1.75 billion. In the event of default, TPC has undertaken to purchase such inventory from the consortium on a piecemeal basis over a specified period that has been agreed upon. Any shortfall of this purchase would be in lieu of purchases made from Cell C within that period. The payment terms as between TPC and Cell C on the normal Cell C trading account would be extended by 120 days, ensuring that TPC will not be at any risk of having to purchase airtime in excess of its monthly requirements.

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

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 post-paid and pre-paid contracts		
AV Technology Limited	1 August 2018	60
Owner of system that offers 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, post-paid and pre-paid 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

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)	(60 187)	(60 186)
Provisional value of subsidiaries acquired	201 011	15 644	89 603	2 309	5 000	(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 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 pre-paid 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.

Basis of preparation

The summary consolidated financial statements are prepared in accordance with the requirements of the JSE Limited Listings Requirements for provisional reports, and the requirements of the Companies Act applicable to summary financial statements. The Listings Requirements require provisional reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards ("IFRS") and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 *Interim Financial Reporting*. The accounting policies applied in the preparation of the consolidated financial statements from which the summary consolidated financial statements were derived are in terms of IFRS and are consistent with those accounting policies applied in the preparation of the previous consolidated annual financial statements except for the change in accounting policy as disclosed below. The comparative financial information has been restated as a result.

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 its revenue and purchase transactions constituted financing activities, the Group has previously accounted for its sale and purchase transactions as including a financing element based on the guidance in Circular 9/2006.

Subsequent to the issuing of Circular 9/2006, the International Financial Reporting Standards Interpretations Committee ("Interpretations Committee") has debated financing elements contained within transactions for both revenue and purchases under the current accounting standards (IAS 2 – *Inventories* and IAS 18 – *Revenue*). Circular 2/2017 considers these developments and updates the previous guidance contained in Circular 9/2006 relating to financing elements of revenue and purchases. Circular 2/2017 repeals the guidance in Circular 9/2006 that deals with extended payment terms (paragraphs 23 to 30).

As a result of the revised guidance in Circular 2/2017, the Group has reconsidered its accounting policy with respect to financing components included in its sale and purchase transactions in the ordinary course of business. In line with the guidance contained in Circular 2/2017, in particular the indicators provided in paragraph 7 of the Circular, the Group has concluded that there is no financing component included in its sale and purchase transactions that occur in the ordinary course of business. In accordance with IAS 8, the Group has therefore restated its 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.

Group statement of financial position

As at 31 May

	Restated 2017 R'000	Adjustments R'000	2017 R'000	Restated 2016 R'000	Adjustments R'000	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	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	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	3 537 505	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

For the year ended 31 May

	Restated 2017 R'000	Adjustments R'000	2017 R'000
Revenue	26 469 581	157 706	26 311 875
Changes in inventories of finished goods	(24 340 581)	(201 288)	(24 139 293)
Operating profit	**1 174 890**	**(43 582)**	**1 218 472**
Finance costs	(109 788)	193 239	(303 027)
Finance income	84 605	(157 589)	242 194
Net profit before taxation	**1 144 966**	**(7 932)**	**1 152 898**
Taxation	(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	114.13	(0.84)	114.97
– Diluted	113.17	(0.83)	114.00

The change in accounting policy had no impact on the Group statement of cash flows.

Non-IFRS information

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

Bastion