BLUE LABEL TELECOMS


# Audited results for the year ended 31 May 2013

Why should the sky be the limit...

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**Directors:** LM Nestadt (Chairman)*, BM Levy, MS Levy, KM Ellerine*, GD Harlow*, NN Lazarus SC*, JS Mthimunye*, MV Pamensky, DB Rivkind, J Vilakazi* (*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: 10:1

**Depository:** The Bank of New York, 101 Barclay Street, New York NY. 10286, USA

**Blue Label Telecoms Limited**

(Incorporated in the Republic of South Africa)

(Registration number 2006/022679/06)

**JSE Share code: BLU**

**ISIN:** ZAE000109088

("Blue Label" or "BLT" or "the company" or "the group")

## Highlights

in headline earnings per share of 17% after excluding a once off income receipt in the comparative year*

in headline earnings per share of 1% after including a once off income receipt in the comparative year*

in revenue to R19 billion

in gross profit to R1,3 billion

in EBITDA to R714 million

Dividend declared to 25 cents per share

*Once off income receipt amounted to R79,4 million*

# Commentary

## FINANCIAL REVIEW

The comparative year included a once off income receipt of R79,4 million. On exclusion of this income, headline earnings per share increased by 17% to 64,17 cents. This growth was achieved through an increase in gross profit margins from 6,45% to 6,70% on revenue of R19 billion, overhead escalation contained at 3% and the effect of the reduction in issued shares resulting from the repurchase of Microsoft's 12% shareholding in December 2011.

The growth in earnings, with the South African distribution segment being the main contributor thereto, was achieved in spite of compounding losses in Mexico and a decline in the performance in the call centre operation.

The distribution of "pin-less top ups", as an alternative mechanism for the vending of prepaid airtime, continued to escalate during the current year. This shift in consumer buying patterns has an impact on the treatment of revenue generated thereon, in that only the gross profit is accounted for as revenue. This gross revenue increased from R177 million to R997 million. The effective growth in group revenue therefore equated to 6% as opposed to 1% as reported.

Commissions earned on the distribution of prepaid electricity and compounding annuity revenue generated from starter packs continued to grow exponentially.

The group capitalised on its accumulated cash resources by utilising funds to take advantage of bulk inventory purchase opportunities at favourable discount rates. This resulted in an increase in inventory holding and a commensurate decline in cash resources.

Capital and reserves accumulated to R3,2 billion, further solidifying the foundation of group resources. The net asset value at year end equated to R4,81 per share (2012: R4,32 per share).

## FINANCIAL OVERVIEW

- Revenue increased to R19 billion.
- Gross profit increased by R63 million to R1,3 billion supported by margin increases from 6,45% to 6,70%.
- Overheads increased by 3%.
- EBITDA increased to R714 million equating to a growth of 6%.*
- Headline earnings increased by 9% to R425 million.*
- Headline earnings per share increased by 17% from 55,01 cents* to 64,17 cents per share.
- On inclusion of the once off comparative receipt, headline earnings per share declined by 1% from 64,65 cents to 64,17 cents.

**On exclusion of the once off income receipt of R79,4 million in the comparative year.*

## BASIS OF PREPARATION

The summarised group annual financial statements have been derived from the group annual financial statements and were prepared in accordance with the JSE Limited Listings Requirements, the presentation and disclosure requirements of IAS 34 – Interim Financial Reporting and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council. The group annual financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and the requirements of the Companies Act of South Africa. A copy of the group annual financial statements can be obtained from the company's registered office.

This financial information has been prepared in accordance with the going concern principle, under the historical cost convention, except for certain financial and equity investments which have been measured at fair value. The accounting policies and methods of computation are consistent with those used in the comparative financial information for the year ended 31 May 2012, with the exception of the standards that are effective for the first time in the current year. These have been disclosed in note 1 to the annual financial statements for the year ended 31 May 2013. These standards have not had a significant impact on the financial information.

In addition, the group uses core net profit as a non-IFRS measure in evaluating its performance. This supplements the IFRS measures disclosed. Core net profit is calculated by adjusting net profit for the year with the amortisation of intangible assets that arise as a consequence of the purchase price allocations completed in terms of IFRS 3(R): Business Combinations.

The summarised group annual financial statements should be read in conjunction with the group annual financial statements which include details of all related party transactions and business combinations.

## SEGMENTAL REPORT

### SOUTH AFRICAN DISTRIBUTION

| | **2013 R'000** | 2012 R'000 | Growth R'000 | % Growth |
|---|---|---|---|---|
| Revenue | **18 712 080** | 18 439 688 | 272 392 | 1% |
| Gross profit | **1 121 747** | 1 059 785 | 61 962 | 6% |
| EBITDA | **796 439** | 737 488 | 58 951 | 8% |
| Core net profit | **570 766** | 513 130 | 57 636 | 11% |
| Gross profit margin | **5,99%** | 5,75% | | |
| EBITDA margin | **4,26%** | 4,00% | | |

In the comparative year, the technology segment was reported on separately. As the bulk of its function and services are interdependent in the distribution of airtime, electricity and starter packs, it is more prudent to house its expenditure in the South African distribution segment. Accordingly, the technology segment has been included in the South African distribution segment and the comparative segmental results in this regard have been restated in accordance with IFRS 8 "Operating Segments".

Prepaid airtime, annuity revenue generated from starter packs and commissions earned on the distribution of prepaid electricity, accounted for a 1% increase in revenue. This excluded the growth of R820 million in sales of pin-less top ups, the gross profit thereon only being accounted for as revenue. Growth in revenue effectively equated to 6%.

Commissions earned on the distribution of prepaid electricity increased by R28 million (33%) to R113 million on revenue generated on behalf of utility suppliers of R7,2 billion (2012: R5,5 billion). The group acts as an agent in the distribution of prepaid electricity.

Gross profit increased by R62 million (6%), supported by margin increases from 5,75% to 5,99%. On exclusion of IFRS adjustments and in turn reflecting the true trading performance of this segment, gross profit increased by R122 million on margin growth from 5,33% to 5,90%. Of this growth of 0,57%, commissions on prepaid electricity accounted for 0,14%.

The growth in EBITDA of 8% was inclusive of the effects of IFRS adjustments. On exclusion of these adjustments in both the comparative and current years, a more representative growth of R119 million (18%) was achieved.

### INTERNATIONAL DISTRIBUTION

| | **2013 R'000** | 2012 R'000 | Growth R'000 | % Growth |
|---|---|---|---|---|
| Revenue | **—** | 17 429 | (17 429) | (100%) |
| Gross profit | **—** | 2 574 | (2 574) | (100%) |
| EBITDA | **(31 000)** | (15 901) | (15 099) | (95%) |
| Discontinued operations | | | | |
| – Africa Prepaid Services Nigeria | **—** | (5 493) | 5 493 | 100% |
| Share of losses from associates and joint ventures | **(49 036)** | (19 182) | (29 854) | (156%) |
| – Ukash | **7 291** | 2 228 | 5 063 | 227% |
| – Oxigen Services India | **(565)** | 4 616 | (5 181) | (112%) |
| – Blue Label Mexico | **(51 124)** | (24 873) | (26 251) | (106%) |
| – Other | **(4 638)** | (1 153) | (3 485) | (302%) |
| Core net loss from continuing operations | **(73 294)** | (36 563) | (36 731) | (100%) |
| – Equity holders of the parent | **(50 685)** | (20 943) | (29 742) | (142%) |
| – Non-controlling interests | **(22 609)** | (15 620) | 6 989 | 45% |
| Core net loss from discontinued operations | **—** | (15 455) | 15 455 | 100% |
| – Equity holders of the parent | **—** | (5 493) | 5 493 | 100% |
| – Non-controlling interests | **—** | (9 962) | 9 962 | 100% |

Historically revenue and gross profit was generated by SharedPhone International, which was disposed of in January 2012.

Negative EBITDA of R31 million was predominantly related to the costs incurred on the ongoing litigation pertaining to Africa Prepaid Services Nigeria ("APSN").

The losses in the comparative year from discontinued operations pertained to the winding down of APSN.

The group's objective in the international segment is to partner with local management in the countries in which it operates. These partnerships result in its international operations being equity accounted for. The group's current active international operations, namely, Ukash, Oxigen Services India and Blue Label Mexico are disclosed accordingly under share of losses from associates and joint ventures.

Share of these net losses comprised the following:

### Ukash

The group's share of profits in Ukash, after the amortisation of intangible assets, increased by 227% to R7,3 million. These results were achieved through organic growth in revenue by 32%, an increase in gross profit by 39% and EBITDA growth of 66%, all reported in its local currency.

### Oxigen Services India

Oxigen Services India's revenue increased by R470 million (18%) to R3 billion and gross profit increased by R10 million, both reported on in SA Rands.

Operating expenses increased by R7,7 million (16%), resulting in a decline in EBITDA by R2,4 million to R11,7 million. The increase in operating expenses was largely due to the necessity to recruit 200 field sales executives, who were hired and trained during the current year in order to enable the company to reach the expansive rural and urban areas in the Indian market place. Further expenditure was incurred on the costs of the migration of PSTN to GPRS, affording wireless portable devices the capability of catering for more products at lower operating costs per terminal, as well as on the migration of the entire OSI platform to the new "Oxisecure" platform. The implementation of the Mobicash wallet with the State Bank of India to facilitate money transfers and the launching of an interbank mobile payment system together with the National Payment Corporation of India to enable money transfers by the unbanked, utilising the "Oxicash" Wallet, also necessitated additional operating expenses.

After accounting for depreciation of R10 million, NPAT declined from R4,9 million to R1,3 million. The group's share of profits of R0,7 million equated to a decline on the prior year by R2,2 million. Amortisation of intangibles amounting to R1,3 million resulted in a net share of losses of R0,6 million. In the comparative year, the group's share of profit, after the amortisation of intangibles, amounted to R4,6 million inclusive of a consolidation adjustment of R2,9 million. This adjustment had no impact on the trading performance of Oxigen Services India during that year.

### Blue Label Mexico

In the comparative year, Blue Label Mexico ("BLM") incurred losses of R60 million after the amortisation of intangible assets, of which the group's 40% share equated to R24,9 million. In spite of revenue growth of 103% in the current year, losses in BLM escalated to R113 million, of which the group's share equated to R51,1 million.

The increase in losses was attributable to margin compression and a significant increase in overheads. Furthermore, the group increased its shareholding from 40% to 45% during the course of the financial year and in turn the group assumed an additional 5% share of these losses.

The decline in gross profit margins was attributable to a reduction in discounts afforded by Telcel, Mexico's predominant network operator, which controls approximately 70% of the Mexican market. Telcel, however, would reinstate the previous margins afforded to BLM, plus additional discounts, on the proviso that BLM would contractually agree to become an exclusive distributor on their behalf. Accordingly, a contract was concluded between BLM and Telcel on 1 April 2013 giving effect to this new arrangement.

The increase in overheads was congruent with BLM's strategy to gear-up as a national distributor. This process also required the procurement of additional point-of-sale devices in anticipation of a national roll out. This in turn had a negative impact on depreciation by 58% in local currency, which equated to 78% on conversion to Rand.

Although the above initiatives proved costly, during the current year, BLM is now positioned to roll out nationally, offering more favourable discounts, with a solid foundation in place to support national distribution.

## MOBILE

| | **2013 R'000** | 2012 R'000 | Growth R'000 | % Growth |
|---|---|---|---|---|
| Revenue | **151 420** | 87 244 | 64 176 | 74% |
| Gross profit | **95 134** | 66 059 | 29 075 | 44% |
| EBITDA | **37 055** | 97 359 | (60 304) | (62%) |
| Core net profit/(loss) | **24 787** | 73 962 | (49 175) | (66%) |

This segment comprises Cellfind, Blue Label One, Content Connect Africa, Blue Label Engage and Panacea Mobile. Content Connect Africa was disposed of in September 2012 and Panacea Mobile and Blue Label Engage were acquired during the current year.

The growth in revenue by 74% to R151 million was mainly attributable to the introduction of bulk SMS facilitation by Cellfind and Panacea Mobile. This resulted in the commensurate growth in gross profit by 44% to R95 million.

EBITDA for the comparative year included the once off income receipt of R79,4 million. On exclusion of this receipt, EBITDA increased by R19 million (106%) to R37 million. On the same basis core net profit increased by R20 million after taxation thereon.

## SOLUTIONS

| | **2013 R'000** | 2012 R'000 | Growth R'000 | % Growth |
|---|---|---|---|---|
| Revenue | **120 710** | 171 029 | (50 319) | (29%) |
| Gross profit | **54 364** | 79 505 | (25 141) | (32%) |
| EBITDA | **24 703** | 38 927 | (14 224) | (37%) |
| Core net profit | **13 190** | 21 324 | (8 134) | (38%) |

The Solutions segment houses Blue Label Data Solutions ("BLDS"), Velociti and CNS Call Centre.

BLDS, which markets data and analytical products and services increased its revenue by R10 million (19%) and gross profit by R4 million (12%), resulting in a contribution of R19 million towards group core net profit. This positive contribution was negated by core net losses of R8 million incurred by Velociti.

Velociti's losses were incurred as a result of a significant decline in outbound campaigns. It is the intention to increase the volume of inbound activity in order to compensate for outbound declines.

## CORPORATE

| | **2013 R'000** | 2012 R'000 | Growth R'000 | % Growth |
|---|---|---|---|---|
| EBITDA | **(113 575)** | (107 391) | (6 184) | (6%) |
| Core net loss | **(120 542)** | (126 183) | 5 641 | 4% |

The increase in negative EBITDA was attributable to a loan impairment of R6,3 million. The decline in core net loss was mainly due to the change in legislation applicable to Secondary Tax on Companies ("STC"). No STC was payable on the dividends declared in the current year, whereas STC on dividends declared in the comparative year amounted to R11 million.

## DEPRECIATION, AMORTISATION AND IMPAIRMENT CHARGES

Depreciation, amortisation and impairment charges declined by R24 million.

There was no impairments to goodwill in the current year as opposed to R4,7 million required in the comparative year.

The impairment of point-of-sale devices declined from R12,8 million to R3,4 million and the amortisation of intangible assets in terms of purchase price allocations declined by R6,9 million in line with the expiration of useful tenure.

Depreciation on the remainder of the assets decreased by R3 million.

## NET FINANCE INCOME

### Finance costs

Finance costs totalled R167 million, of which R24 million related to interest paid on borrowed funds and R143 million to imputed IFRS interest adjustments on credit received from suppliers. On a comparative basis, interest paid on borrowed funds was R3 million and the imputed IFRS interest adjustment equated to R178 million. The increase in interest paid on borrowed funds was attributable to bulk inventory purchase transactions of which facilities were utilised and repaid during the year.

### Finance income

Finance income totalled R173 million, of which R45 million was for interest received on cash resources and R128 million pertaining to IFRS adjustments. On a comparative basis interest received on cash resources amounted to R60 million and the imputed IFRS interest adjustment R111 million. The decline in interest received on cash resources was in line with the utilisation of funds on hand for bulk inventory purchase transactions and partly due to a reduction in interest rates by 0,5% from July 2012.

## STATEMENT OF FINANCIAL POSITION

Total assets increased by R785 million, of which R347 million was attributable to growth in non-current assets and R438 million in current assets.

The movement of intangible assets and goodwill by R200 million related to acquisitions to the extent of R34 million, the cost of annuity driven starter pack and post paid bases totalling R264 million, less disposals and amortisation of R18 million and R79 million respectively.

The increase in investment in associates and joint ventures totalling R167 million was due to further investment into Blue Label Mexico of R110 million, the impact of foreign currency translation reserves of R80 million, set off by net losses of R47 million incurred by these companies.

The movement in current assets by R438 million was mainly due to an increase in inventories by R1,3 billion which was attributable to bulk purchase transactions, causing a decline in cash resources by R1 billion. Although the stock turn consequently increased from an historical average of 11 days to 38 days, the discount afforded thereon justified the excess in inventory holding.

Accounts receivable increased by R152 million, maintaining the debtors collection period at 27 days.

The net profit of R425 million less a dividend of R155 million and a movement of R88 million in foreign exchange translation reserves were the main contributors to the growth in capital and reserves.

Trade and other payables increased by R462 million with average creditors days increasing from 37 days to 46 days.

## STATEMENT OF CASH FLOWS

Cash flows of R432 million were generated from operating activities before accounting for the movement in inventory and accounts payable directly attributable to bulk purchasing transactions. There was a negative generation of cash flow of R440 million after accounting for the bulk purchase transactions.

A further R406 million was applied to investing activities, of which R110 million related to an additional investment in BLM, R264 million to the acquisition of the annuity bases, R26 million to capital expenditure and R3 million to acquisitions.

After the payment of dividends of R159 million to shareholders and non-controlling interest and the acquisition of treasury shares for R17 million, the cash on hand at year end amounted to R941 million.

## FORFEITABLE SHARE SCHEME

Forfeitable shares totalling 3 496 103 (2012: 4 828 644) were issued to qualifying employees. During the year 1 285 962 (2012: 1 067 904) shares were forfeited and 2 700 513 (2012: 311 637) shares vested.

## DIVIDEND NO 4

The group's current dividend policy is to declare an annual dividend. On 18 August 2013, the board approved and declared a gross ordinary dividend (number 4) of 25 cents per ordinary share (21,25 cents per ordinary share net of dividend withholding tax) for the year ended 31 May 2013. This dividend of R168 627 261, inclusive of withholding tax, equates to a 2,52 cover on headline earnings. The dividend for the year ended 31 May 2013 has not been recognised in the financial statements as it was declared after this date.

The dividend has been declared from reserves. The company has no Secondary Tax on Companies credits available. The dividend withholding tax rate is 15%. The issued share capital at the declaration date was 674 509 042 ordinary shares. The company's income tax reference number is 9062246179.

The salient dates are as follows:

| | |
|---|---|
| Last date to trade *cum* dividend | Friday, 6 September 2013 |
| Shares commence trading *ex* dividend | Monday, 9 September 2013 |
| Record date | Friday, 13 September 2013 |
| Payment of dividend | Monday, 16 September 2013 |

Share certificates may not be dematerialised or rematerialised between Monday, 9 September and Friday, 13 September 2013, both days inclusive.

## PROSPECTS

A diverse range of customer engagement initiatives concerning membership and loyalty programmes has been developed. This will enable delivery to the market of unique turnkey customer engagement solutions that will generate multiple annuity based revenue streams through supporter engagement programmes. These programmes will include communications, events, access-control, ticketing and concessionary services that enhance service value to supporters. In this regard five year contracts have been concluded with both Cricket SA and The Blue Bulls Rugby Company.

A ticketing engine has recently been acquired which will enable the end user to acquire tickets for sporting and entertainment events as well as transport services through the group's distribution capabilities and vast points of presence.

Innovative financial services products, aimed at bringing financial inclusion and transactional value to customers, will be implemented. These initiatives will include debit and credit card processing through the existing extensive point-of-sale network. These additional financial services products complement the group's existing prepaid products and services and enhance the value-proposition to the merchants and their customers.

The recent acquisitions of a post paid contract base and prepaid starter pack bases is expected to compound the annuity revenue generated from the existing bases within the group.

SMS aggregation is expected to continue to gain further momentum following the successful development of technology by Panacea Mobile to support this service.

Consumer awareness of the benefits of prepaid electricity is expected to continue to escalate and in turn compound the commissions earned on the distribution of this product.

Blue Label Mexico intends to roll out point-of-sale devices incorporating banking transactional capabilities on the devices. It is the intention to aggressively implement this initiative, utilising the extensive distribution network of our partner, Grupo Bimbo.

## SUBSEQUENT EVENTS

In June 2013, the group secured a distribution agreement with a leading reseller at a purchase price of R84 million. This is expected to further enhance the group's prominence in the distribution of prepaid services.

Subsequent to year end, dividend number 4 was declared and approved by the board.

## LITIGATION UPDATE

In December 2008 Africa Prepaid Services (Pty) Ltd ("APS"), a subsidiary of Blue Label concluded a super dealer agreement with Multi-Links Telecommunications Limited ("MLT"), a wholly owned subsidiary of Telkom, at the time, in terms of which APS was appointed for a period of 10 years to market and distribute a range of products and services for MLT in Nigeria ("the agreement").

In 2009 APS ceded and assigned all its rights and obligations in terms of the agreement to Africa Prepaid Services Nigeria Limited ("APSN"), a subsidiary of APS and Blue Label.

On 26 November 2010 APSN cancelled the agreement on the basis of MLT's wrongful repudiation of the agreement.

In June 2011 APSN launched arbitration proceedings in South Africa against MLT ("the arbitration proceedings"). APSN claims payment of US$457 million against MLT and MLT has counterclaimed for payment of the sum of US$123 million.

Telkom sold its shareholding in MLT to Hip Oils Topco Limited on 3 October 2011. In terms of an indemnity contained in the sale and purchase agreement, Telkom is liable for all amounts in excess of US$10 million in respect of APSN's claim against MLT.

The arbitration was due to commence in November 2012 but was postponed and is due to reconvene in February 2014.

Telkom and MLT have instituted an action in the High Court against Blue Label, APS, APSN and certain individuals, including a former senior executive of Telkom in the High Court for payment of an aggregate amount of US$724 million ("the action").

The claim in the action is based, inter alia, on an alleged breach of the duty of care and alleged misrepresentations made by Blue Label together with alleged breaches of fiduciary duties on the part of the former senior Telkom executive, at the time the agreement was concluded, in respect of which it is alleged Blue Label was a party to.

On 16 May 2013 Telkom and MLT obtained an order without notice to APSN in terms of which APSN's claim against MLT in the arbitration proceedings together with a costs order in APSN's favour were purportedly attached in order to give the High Court jurisdiction over APSN in the action ("the ex parte order").

Telkom and MLT have conceded that there was no basis for the attachment and have abandoned the ex parte order. APSN is seeking a punitive order for costs against Telkom and MLT, which was set down for a hearing commencing on 19 August 2013. The High Court will simultaneously determine an application which has been launched by MLT to stop the arbitration proceedings, which is being opposed by APSN.

At the time of going to print the outcome of these proceedings is yet to be pronounced upon by the court. A further announcement will be made when the court delivers its judgement.

## INDEPENDENT AUDIT

PricewaterhouseCoopers Inc.'s unqualified audit reports on the group annual financial statements and the summarised group annual financial statements for the year ended 31 May 2013 are available for inspection at the company's registered office. Any reference to future financial performance in this announcement has not been audited or reported on by PricewaterhouseCoopers Inc.

## APPRECIATION

The board of Blue Label Telecoms once again expresses 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** | **BM Levy and MS Levy** | **DB Rivkind CA(SA)*** | |
| Chairman | Joint Chief Executive Officers | Financial Director | 18 August 2013 |

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

# Summarised group statement of financial position

| As at 31 May | 2013 R'000 | 2012 R'000 |
|---|---|---|
| **ASSETS** | | |
| **Non-current assets** | **1 340 410** | 993 076 |
| Property, plant and equipment | **88 125** | 112 188 |
| Intangible assets and goodwill | **706 018** | 505 698 |
| Investment in and loans to associates and joint ventures | **524 162** | 357 471 |
| Loans receivable | **1 000** | 1 435 |
| Starter pack assets | **2 573** | 4 501 |
| Deferred taxation assets | **18 532** | 11 783 |
| **Current assets** | **4 380 137** | 3 942 456 |
| Inventories | **1 858 511** | 539 221 |
| Loans receivable | **36 431** | 30 049 |
| Starter pack assets | **1 115** | 3 191 |
| Trade and other receivables | **1 539 365** | 1 387 650 |
| Current tax assets | **3 433** | 7 103 |
| Cash and cash equivalents | **941 282** | 1 975 242 |
| **Total assets** | **5 720 547** | 4 935 532 |
| **EQUITY AND LIABILITIES** | | |
| **Capital and reserves** | **3 242 853** | 2 914 386 |
| Share capital, share premium and treasury shares | **3 939 891** | 3 941 316 |
| Restructuring reserve | **(1 843 912)** | (1 843 912) |
| Other reserves | **113 139** | 25 539 |
| Share-based payment reserve | **39 496** | 38 915 |
| Transaction with non-controlling interest reserve | **(931 125)** | (909 572) |
| Retained earnings | **1 941 082** | 1 671 378 |
| Non-controlling interest | **(15 718)** | (9 278) |
| **Non-current liabilities** | **11 942** | 50 624 |
| Deferred taxation liabilities | **11 942** | 21 598 |
| Trade and other payables | **—** | 29 026 |
| **Current liabilities** | **2 465 752** | 1 970 522 |
| Trade and other payables | **2 393 222** | 1 931 204 |
| Provisions | **19 029** | 6 260 |
| Current tax liabilities | **39 504** | 21 041 |
| Current portion of interest-bearing borrowings | **1 980** | — |
| Current portion of non-interest-bearing borrowings | **12 017** | 12 017 |
| **Total equity and liabilities** | **5 720 547** | 4 935 532 |

# Summarised group statement of comprehensive income

| For the year ended 31 May | 2013 R'000 | 2012 R'000 |
|---|---|---|
| **Continuing operations** | | |
| Revenue | **18 984 210** | 18 715 390 |
| Other income | **16 137** | 97 412 |
| Change in inventories of finished goods | **(17 712 965)** | (17 507 468) |
| Employee compensation and benefit expense | **(332 901)** | (327 830) |
| Depreciation, amortisation and impairment charges | **(67 951)** | (91 557) |
| Other expenses | **(240 859)** | (227 022) |
| **Operating profit** | **645 671** | 658 925 |
| Finance costs | **(167 096)** | (181 081) |
| Finance income | **173 260** | 170 995 |
| Share of loss from associates and joint ventures | **(47 326)** | (19 835) |
| **Net profit before taxation** | **604 509** | 629 004 |
| Taxation | **(196 404)** | (194 075) |
| **Net profit from the year from continuing operations** | **408 105** | 434 929 |
| **Discontinued operation** | | |
| Net loss for the year from discontinued operation | **—** | (15 455) |
| **Net profit for the year** | **408 105** | 419 474 |
| **Other comprehensive income:** | | |
| Exchange profits on translation of equity loans | **—** | 5 395 |
| Exchange profits on translation of foreign operations | **87 888** | 36 058 |
| **Other comprehensive income for the year, net of tax** | **87 888** | 41 453 |
| **Total comprehensive income for the year** | **495 993** | 460 927 |
| **Net profit for the year attributable to:** | | |
| **Equity holders of the parent** | **424 841** | 438 104 |
| – From continuing operations | **424 841** | 443 597 |
| – From discontinued operation | **—** | (5 493) |
| **Non-controlling interest** | **(16 736)** | (18 630) |
| – From continuing operations | **(16 736)** | (8 668) |
| – From discontinued operation | **—** | (9 962) |
| **Total comprehensive income for the year attributable to:** | **495 993** | 460 927 |
| Equity holders of the parent | **512 441** | 477 244 |
| Non-controlling interest | **(16 448)** | (16 317) |
| **Earnings per share for profit attributable to equity holders (cents)** | | |
| **Basic earnings per share (cents)** | **64,22** | 61,87 |
| – From continuing operations | **64,22** | 62,65 |
| – From discontinued operation | **—** | (0,78) |
| **Diluted earnings per share** (cents)** | **63,19** | 60,97 |
| – From continuing operations | **63,19** | 61,74 |
| – From discontinued operation | **—** | (0,78) |
| **Dividend per share (cents)** | **23,00** | 14,00 |
| Weighted average number of shares | **661 577 847** | 708 059 527 |
| Diluted weighted average number of shares | **672 304 611** | 718 577 060 |
| Number of shares in issue | **674 509 042** | 674 509 042 |
| **Headline earnings per share (cents)** | **64,17** | 64,65 |
| – From continuing operations | **64,17** | 65,43 |
| – From discontinued operation | **—** | (0,78) |
| **Diluted headline earnings per share** (cents)** | **63,14** | 63,70 |
| Reconciliation between net profit and core net profit for the year: | | |
| Net profit for the year attributable to equity holders of the parent | **424 841** | 438 104 |
| Amortisation on intangible assets raised through business combinations net of tax and net of non-controlling interest | **12 675** | 17 693 |
| Core net profit for the year | **437 516** | 455 797 |
| – Core earnings per share (cents)* | **66,13** | 64,37 |

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

***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.*

## Summarised group statement of changes in equity

| | Share capital, share premium and treasury shares R'000 | Retained earnings R'000 | Restructuring reserve R'000 |
|---|---|---|---|
| Balance as at 1 June 2011 | 4 348 231 | 1 340 318 | (1 843 912) |
| Net profit for the year | — | 438 104 | — |
| Other comprehensive income | — | — | — |
| Total comprehensive income/(loss) | — | 438 104 | — |
| Dividends paid | — | (107 044) | — |
| Treasury shares purchased | (16 095) | — | — |
| Shares acquired | (392 378) | — | — |
| Equity compensation benefit scheme shares vested | 1 558 | | |
| Equity-based compensation movements | — | — | — |
| Share of equity movement in associates | — | — | — |
| Transaction with non-controlling interest reserve movement | — | — | — |
| Non-controlling interests disposed of during the year | — | — | — |
| **Balance as at 1 June 2012** | **3 941 316** | **1 671 378** | **(1 843 912)** |
| **Net profit for the year** | **—** | **424 841** | **—** |
| **Other comprehensive income** | **—** | **—** | **—** |
| **Total comprehensive income/(loss)** | **—** | **424 841** | **—** |
| **Dividends paid** | **—** | **(155 137)** | **—** |
| **Treasury shares purchased** | **(17 223)** | **—** | **—** |
| **Equity compensation benefit scheme shares vested** | **15 798** | **—** | **—** |
| **Equity-based compensation movements** | **—** | **—** | **—** |
| **Share of equity movement in associates** | **—** | **—** | **—** |
| **Transaction with non-controlling interest reserve movement** | **—** | **—** | **—** |
| **Non-controlling interest acquired during the year** | **—** | **—** | **—** |
| **Balance as at 31 May 2013** | **3 939 891** | **1 941 082** | **(1 843 912)** |

**Included in other reserves is the foreign currency translation reserve and the non-distributable reserve.*
***Includes employee compensation benefit reserve.*

| Other reserves* R'000 | Transaction with non-controlling interest reserve R'000 | Share-based payment reserve** R'000 | Non-controlling interest R'000 | Total equity R'000 |
|---|---|---|---|---|
| (13 601) | (909 006) | 19 099 | 14 234 | 2 955 363 |
| — | — | — | (18 630) | 419 474 |
| 39 140 | — | — | 2 313 | 41 453 |
| 39 140 | — | — | (16 317) | 460 927 |
| — | — | — | (2 945) | (109 989) |
| — | — | — | — | (16 095) |
| — | — | — | — | (392 378) |
| | | (1 517) | (41) | — |
| — | — | 21 929 | 197 | 22 126 |
| — | — | (596) | — | (596) |
| — | (566) | — | — | (566) |
| — | — | — | (4 406) | (4 406) |
| **25 539** | **(909 572)** | **38 915** | **(9 278)** | **2 914 386** |
| **—** | **—** | **—** | **(16 736)** | **408 105** |
| **87 600** | **—** | **—** | **288** | **87 888** |
| **87 600** | **—** | **—** | **(16 448)** | **495 993** |
| **—** | **—** | **—** | **(3 515)** | **(158 652)** |
| **—** | **—** | **—** | **—** | **(17 223)** |
| **—** | **—** | **(15 559)** | **(239)** | **—** |
| **—** | **—** | **16 063** | **117** | **16 180** |
| **—** | **—** | **77** | **—** | **77** |
| **—** | **(21 553)** | **—** | **7 553** | **(14 000)** |
| **—** | **—** | **—** | **6 092** | **6 092** |
| **113 139** | **(931 125)** | **39 496** | **(15 718)** | **3 242 853** |

## Summarised group statement of cash flows

| for the year ended 31 May | 2013 R'000 | 2012 R'000 |
|---|---|---|
| Cash flows from operating activities | **(439 794)** | 528 109 |
| Cash flows from investing activities | **(406 336)** | (276 991) |
| Cash flows from financing activities | **(188 066)** | (519 984) |
| **Decrease in cash and cash equivalents** | **(1 034 196)** | (268 866) |
| Cash and cash equivalents at the beginning of the year | **1 975 242** | 2 226 170 |
| Translation difference | **236** | 17 938 |
| **Cash and cash equivalents at the end of the year** | **941 282** | 1 975 242 |

## Disposal of subsidiaries

Shares in the following subsidiaries were disposed of during the period

| | Effective date of disposal | % held and disposed of |
|---|---|---|
| **Subsidiaries** | | |
| Content Connect Africa (Proprietary) Limited | 1 September 2012 | 100 |
| Multiserv (Proprietary) Limited | 1 January 2013 | 100 |

| *Details of the total net assets disposed and the resulting profit on disposal are as follows:* | Total R'000 |
|---|---|
| Total proceeds | **12 338** |
| Fair value of net assets disposed of | **12 218** |
| Loss on disposal | **120** |

| *The assets and liabilities disposed of are as follows:* | Fair value at disposal date R'000 |
|---|---|
| Cash and cash equivalents | 4 230 |
| Property, plant and equipment | 333 |
| Intangible assets | 7 588 |
| Inventories | 1 643 |
| Receivables | 7 615 |
| Loan receivable | 1 839 |
| Deferred tax | (468) |
| Borrowings | (9 198) |
| Current tax liabilities | (45) |
| Payables | (11 911) |
| Fair value of subsidiaries disposed of | 1 626 |
| Goodwill | 10 592 |
| Fair value of net assets disposed of | 12 218 |
| Proceeds on disposal of subsidiaries | 12 338 |
| Proceeds still to be settled | (7 853) |
| Proceeds received | 4 485 |
| Cash and cash equivalents of subsidiaries disposed of | (4 230) |
| Cash inflow on disposals | 255 |

## Headline earnings

| For the year ended 31 May | 2013 R'000 | 2012 R'000 |
|---|---|---|
| Net profit attributable to equity holders of the parent | **424 841** | 438 104 |
| Net profit on disposal of property, plant and equipment | **(562)** | (65) |
| (Profit)/loss on disposal of subsidiaries | **(120)** | 3 014 |
| (Profit)/loss on disposal of associates and joint ventures | **(2 107)** | 3 025 |
| Impairment of goodwill | **—** | 4 684 |
| Impairment of intangible assets and property, plant and equipment | **2 454** | 9 354 |
| Profit on disposal of investment | **—** | (361) |
| Headline earnings | **424 506** | 457 755 |
| Headline earnings per share (cents) | **64,17** | 64,65 |
| – From continuing operations | **64,17** | 65,43 |
| – From discontinued operation | **—** | (0,78) |

## Acquisition of subsidiaries

Shares in the following subsidiaries were acquired during the period:

| | Effective date of acquisition | % acquired |
|---|---|---|
| **Subsidiaries** | | |
| Blue Label Engage Proprietary Limited | 1 September 2012 | 50,1 |
| Panacea Mobile Proprietary Limited | 1 September 2012 | 51 |
| TicketPros Proprietary Limited | 5 April 2013 | 60 |

| *Details of the total net assets acquired and the resulting goodwill as at acquisition are as follows:* | Total R'000 |
|---|---|
| Total purchase consideration | 22 569 |
| Fair value of net assets acquired | 7 840 |
| Goodwill | 14 729 |

| *The assets and liabilites acquired through acquisition are as follows:* | Fair value at acquisition date R'000 | Acquirer's carrying amount on acquisition date R'000 |
|---|---|---|
| Cash and cash equivalents | 17 130 | 17 130 |
| Property, plant and equipment | 578 | 578 |
| Intangible assets | 10 631 | 868 |
| Goodwill | 14 729 | — |
| Inventories | 994 | 994 |
| Receivables | 3 465 | 3 465 |
| Deferred tax | (2 734) | — |
| Current tax liability | (1 437) | (1 437) |
| Borrowings | (114) | (114) |
| Payables | (14 581) | (14 581) |
| Fair value of subsidiaries acquired | 28 661 | 6 093 |
| Non-controlling interest | (6 092) | |
| Fair value of net assets acquired | 22 569 | |
| Total purchase consideration | | 22 569 |
| Deferred purchase consideration | | (2 669) |
| Cash and cash equivalents in subsidiary acquired | | (17 130) |
| Cash outflow from acquisitions | | 2 770 |

## Segmental summary

| Year ended | Total R'000 |
|---|---|
| **31 May 2013** | |
| **Total segment revenue** | **24 720 865** |
| **Internal revenue** | **(5 736 655)** |
| **Revenue** | **18 984 210** |
| **Operating profit/(loss) before depreciation, amortisation and impairment charges** | **713 622** |
| **Net profit/(loss) for the year attributable to equity holders of the parent** | **424 841** |
| – From continuing operations | **424 841** |
| Amortisation on intangibles raised through business combinations net of tax and non-controlling interest | **12 675** |
| **Core net profit for the year attributable to equity holders of the parent** | **437 516** |
| – From continuing operations | **437 516** |
| **At 31 May 2013** | |
| **Total assets** | **5 720 547** |
| **Net operating assets/(liabilities)** | **1 914 385** |
| Year ended | |
| 31 May 2012 | |
| Total segment revenue | 30 173 943 |
| Internal revenue | (11 458 553) |
| Revenue | 18 715 390 |
| Operating profit/(loss) before depreciation, amortisation and impairment charges | 750 482 |
| Net profit/(loss) for the year attributable to equity holders of the parent | 438 104 |
| – From continuing operations | 443 597 |
| – From discontinued operation | (5 493) |
| Amortisation on intangibles raised through business combinations net of tax and non-controlling interest | 17 693 |
| Core net profit for the year attributable to equity holders of the parent | 455 797 |
| – From continuing operations | 461 290 |
| – From discontinued operation | (5 493) |
| At 31 May 2012 | |
| Total assets | 4 935 532 |
| Net operating assets/(liabilities) | 1 971 934 |

| South African distribution R'000 | International distribution R'000 | Mobile R'000 | Solutions R'000 | Corporate R'000 |
|---|---|---|---|---|
| **24 363 215** | **—** | **220 393** | **137 257** | **—** |
| **(5 651 135)** | **—** | **(68 973)** | **(16 547)** | **—** |
| **18 712 080** | **—** | **151 420** | **120 710** | **—** |
| **796 439** | **(31 000)** | **37 055** | **24 703** | **(113 575)** |
| **562 824** | **(54 861)** | **24 268** | **13 152** | **(120 542)** |
| **562 824** | **(54 861)** | **24 268** | **13 152** | **(120 542)** |
| **7 942** | **4 176** | **519** | **38** | **—** |
| **570 766** | **(50 685)** | **24 787** | **13 190** | **(120 542)** |
| **570 766** | **(50 685)** | **24 787** | **13 190** | **(120 542)** |
| **4 950 040** | **481 712** | **94 581** | **145 989** | **48 225** |
| **1 981 975** | **(15 567)** | **3 313** | **16 904** | **(72 240)** |
| 29 883 770 | 17 429 | 96 084 | 176 660 | — |
| (11 444 082) | — | (8 840) | (5 631) | — |
| 18 439 688 | 17 429 | 87 244 | 171 029 | — |
| 737 488 | (15 901) | 97 359 | 38 927 | (107 391) |
| 504 035 | (30 277) | 69 270 | 21 259 | (126 183) |
| 504 035 | (24 784) | 69 270 | 21 259 | (126 183) |
| — | (5 493) | — | — | — |
| 9 095 | 3 841 | 4 692 | 65 | — |
| 513 130 | (26 436) | 73 962 | 21 324 | (126 183) |
| 513 130 | (20 943) | 73 962 | 21 324 | (126 183) |
| — | (5 493) | — | — | — |
| 4 364 061 | 337 494 | 62 278 | 137 997 | 33 702 |
| 2 029 232 | (10 126) | 5 247 | 7 385 | (59 804) |