

Blue Label Telecoms Limited
(Incorporated in the Republic of South Africa)
(Registration number: 2006/022679/06)
Share code: BLU
ISIN: ZAE000109088
("Blue Label" or "the Company")

DISTRIBUTION OF CIRCULAR AND FINANCIAL INFORMATION RELATING TO THE VAS OPERATIONS AND 3G DISTRIBUTION

1. INTRODUCTION

Shareholders are referred to the announcement released on SENS on 25 September 2019 ("**Category 1 Announcement**") and the further clarification announcement released on SENS on 16 October 2019 in respect of Blue Label's proposed disposal of its direct and indirect interests in:

- Blue Label Mobile or the VAS Operations; and
- 3G Mobile (excluding the share capital held in and loan claims against CEC) to DNI (together, the "Proposed Transactions")

Unless expressly defined, capitalised terms used in this announcement and not defined herein shall bear the same meaning as ascribed to them in the Circular (defined immediately below).

2. DISTRIBUTION OF CIRCULAR AND NOTICE OF GENERAL MEETING

The Company intends to distribute a circular to Shareholders on or about 6 November 2019 ("Circular"), which details the Proposed Transactions. The Circular also incorporates a notice convening a general meeting of Blue Label shareholders ("General Meeting") for the purpose of considering, and, if deemed fit, passing, with or without modification, the resolutions contained in such notice.

Notice is hereby given that the General Meeting will be held at 10:00 on Wednesday, 4 December 2019 in the boardroom, Blue Label corporate offices, 75 Grayston Drive, Sandton, to consider and, if deemed fit, to pass, with or without modification, the requisite resolutions required for the Proposed Transactions.

The Circular is available in English only. Copies may be obtained during normal business hours from the registered office of Blue Label, at 75 Grayston Drive, Sandton, from Wednesday, 6 November 2019 until Wednesday, 4 December 2019 (both days inclusive). A copy of this Circular is also available on Blue Label's website (<http://www.bluelabeltelecoms.co.za>).

3. CONSIDERATION IN RESPECT OF THE VAS OPERATIONS TRANSACTION

As set out in the Category 1 announcement, the total consideration to be received by Blue Label in respect of the VAS Operations Sale Interest is expected to be:

- R350 million plus the amounts Blue Label have disbursed for the acquisition of 50% of Hyve Mobile Proprietary Limited and Mobile Content Africa Limited (together "Hyve") as at the effective date (expected to be R80 million plus interest thereon); and
- R100 million, bearing interest at prime overdraft rates plus 2% per annum compounded on a monthly basis, deferred until the solvency and liquidity status of Cell C is proven.

As the acquisition of 50% of Hyve is included in the VAS Operations Transaction, all payments made by Blue Label up and until the effective date will be refundable by DNI and this is in excess of the R350 million purchase consideration and R100 million deferred purchase consideration as detailed above.

Of the initial amount of R80 million payable to the shareholders of Hyve, R57 million plus interest of R1.6 million has been paid to date. On payment of the balance of R23 million plus interest thereon, Blue Label Mobile's 50% shareholding in Hyve will become effective.

4. FINANCIAL INFORMATION IN RELATION TO THE VAS OPERATIONS

In accordance with the Category 1 Announcement, the outstanding financial information in relation to the VAS Operations and 3G Distribution are disclosed below. The *pro forma* financial information related to the Proposed Transactions are included in the Circular.

The value of the net assets of the VAS Operations attributable to equity holders of Blue Label at 31 May 2019 (being the date of the last published financial information of Blue Label) was R567 million, net of accounting for put and/or call options on 40% of the shares of Airvantage Proprietary Limited ("Airvantage SA") and AV Technology Limited ("AV Technology"), at a value of R159 million. Further information pertaining to the put and/or call options is detailed in the Circular. The attributable loss for the 12 months then ended amounted to R38 million. On exclusion of the partial impairment of goodwill in ViaMedia Proprietary Limited and the partial

impairment of the joint ventures in SupaPesa South Africa Proprietary Limited and SupaPesa Africa Limited, attributable profit for the 12 months then ended equated to R64 million. Attributable core headline earnings for the 12 months then ended was R83 million.

As detailed in the Circular, on 3 June 2019 Blue Label restructured its holdings in several of the VAS Operations entities into Blue Label Mobile Group Proprietary Limited ("Blue Label Mobile"). Prior to this restructure the underlying entities declared dividends, of which Blue Label's share amounted to R324 million and of which R68 million is still owing to Blue Label.

5. CONSIDERATION IN RESPECT OF THE 3G DISTRIBUTION TRANSACTION

As set out in the Category 1 announcement, the initial consideration payable for the 3G Distribution Transaction will be R544,000,000. The initial consideration will be adjusted by the net amount by which surplus / inadequate provision was made for bad debts, obsolete trading stock in the consolidated audited 2019 balance sheet of 3G Mobile.

6. FINANCIAL INFORMATION IN RELATION TO 3G DISTRIBUTION

The value of the net assets of 3G Distribution attributable to equity holders of Blue Label at 31 May 2019 (being the date of the last published financial information of Blue Label) was R541 million and the attributable profit for the 12 months then ended, was R64 million. Attributable core headline earnings for the 12 months then ended was R71 million.

7. PRO FORMA FINANCIAL EFFECTS OF THE PROPOSED TRANSACTIONS

The tables below set out the pro forma financial effects of the Proposed Transactions and are based on the published audited Group financial results of Blue Label for the year ended 31 May 2019. The pro forma financial effects of the Proposed Transactions are the responsibility of the Directors of Blue Label and have been prepared for illustrative purposes only to provide information about how the Proposed Transactions may affect Blue Label Group's financial position and financial performance and, because of its nature, may not give a fair reflection of Blue Label's financial performance and position, changes in equity, and results of operations and cash flows after the Proposed Transactions.

The pro forma financial effects have been prepared using accounting policies that comply with IFRS and that are consistent with those applied in the published audited Group financial results of Blue Label for the year ended 31 May 2019. The pro forma financial effects are presented in accordance with the JSE Listings Requirements, the Guide on Pro Forma Financial Information issued by the South African Institute of Chartered Accountants and ISAE 3420 (Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus).

The Directors are responsible for the compilation, contents and preparation of the pro forma financial effects. Their responsibility includes determining that the pro forma financial effects have been properly compiled on the basis stated, which is consistent with the accounting policies of the Blue Label Group and that the pro forma adjustments are appropriate for purposes of the pro forma financial information disclosed pursuant to the JSE Listings Requirements.

The pro forma financial effects have been calculated based on the assumptions that:

- For the purpose of calculating basic, headline and core headline earnings per share, the Proposed Transactions were implemented on 1 June 2018; and
- For the purpose of calculating net asset value per share and tangible net asset value per share, the Proposed Transactions were implemented on 31 May 2019.

Accounting treatment of the VAS Operations Transaction

R100 million of the consideration for the VAS Operations Transaction will be deferred/contingent until the solvency and liquidity status of Cell C is proven. Furthermore, Blue Label will continue to assume the obligation with respect to the put and/or call options on 40% of the shares in Airvantage SA and AV Technology, until such time as the liquidity and solvency status of Cell C is proven.

As disclosed in the published audited Group financial results of Blue Label for the year ended 31 May 2019, Cell C experienced adverse trading conditions with a significant decrease in forecast revenue and lower than anticipated growth in their subscriber base, which could result in insufficient available cash resources to settle their debts as they come due. The transactions in progress, relating to a national roaming agreement and the recapitalisation of Cell C, are ongoing.

The ability of Cell C to pass the solvency and liquidity test impacts the consideration due by DNI and consequently, the Directors present pro forma financial effects for the following instances:

The solvency and liquidity of Cell C is unproven

In this event, Blue Label will be obligated to meet the commitment relating to the put option on 40% of the shares in Airvantage SA and AV Technology, and if the solvency and liquidity of Cell C is unproven thereafter, then the R100 million deferred consideration will not be payable to Blue Label. However, in lieu thereof, Blue Label Mobile will transfer 24% of the issued share capital of Airvantage SA and AV Technology to Blue Label, resulting in Blue Label's ownership of these entities amounting to 64%.

The solvency and liquidity of Cell C is proven

In this event, Blue Label will be obligated to meet the commitment relating to the put option on 40% of the shares in Airvantage SA and AV Technology, and if the solvency and liquidity of Cell C is proven thereafter, then the R100 million deferred consideration will be payable to Blue Label plus the cost of the put option on 40% of the shares in Airvantage SA and AV Technology will be transferred to Blue Label Mobile.

Pro forma financial effects of the Proposed Transactions in the event that the solvency and liquidity of Cell C is unproven

	Before (Note 1)	Pro forma after the VAS Operations Transaction (Note 2)	Pro forma after the 3G Distribution Transaction (Note 3)	Pro forma after the Proposed Transactions (Note 4)	% Change		
	A	B	C	D	B-A	C-A	D-A
Basic earnings per share (cents)	(727.81)	(749.86)	(731.31)	(753.37)	(3.0%)	(0.5%)	(3.5%)
Headline earnings per share (cents)	(312.49)	(316.70)	(315.08)	(319.30)	(1.3%)	(0.8%)	(2.2%)
Core headline earnings per share (cents)	(304.77)	(310.11)	(308.16)	(313.50)	(1.8%)	(1.1%)	(2.9%)
Total number of shares in issue	904 201 466	904 201 466	904 201 466	904 201 466			
Weighted average number of shares in issue	913 208 055	913 208 055	913 208 055	913 208 055			
Net asset value per share (cents)	262.03	249.80	260.70	248.47	(4.7%)	(0.5%)	(5.2%)
Tangible net asset value per share (cents)	(2.78)	40.32	10.45	53.55	1551.1%	475.9%	2027.0%

Notes and assumptions:

- 1) The 'Before' column has been extracted without adjustment from the published audited Blue Label Group financial results for the year ended 31 May 2019.
- 2) The "Pro forma after the VAS Operations Transaction" column reflects the impact of the *pro forma* adjustments on Blue Label as a consequence of the VAS Operations Transaction, assuming that the solvency and liquidity of Cell C is unproven.
- 3) The "Pro forma after the 3G Distribution Transaction" column reflects the impact of the *pro forma* adjustments on Blue Label as a consequence of the 3G Distribution Transaction.
- 4) The "Pro forma after the Proposed Transactions" column reflects the combined impact of the *pro forma* adjustments on Blue Label as a consequence of the VAS Operations Transaction and the 3G Distribution Transaction, assuming that the solvency and liquidity of Cell C is unproven.
- 5) The detailed notes and assumptions to the *pro forma* financial effects are presented in Circular and the *pro forma* financial effects should be read in conjunction with the Blue Label *pro forma* group statement of financial position and the *pro forma* group income statement contained therein. The Independent Reporting Accountant's assurance report on the *pro forma* financial effects and *pro forma* financial information is contained in the Circular.

Pro forma financial effects of the Proposed Transactions in the event that the solvency and liquidity of Cell C is proven (the *pro forma* financial effects for the 3G Distribution Transaction remain unchanged)

	Before (Note 1)	Pro forma after the VAS Operations Transaction (Note 2)	Pro forma after the 3G Distribution Transaction (Note 3)	Pro forma after the Proposed Transactions (Note 4)	% Change		
	A	B	C	D	B-A	C-A	D-A
Basic earnings per share (cents)	(727.81)	(729.84)	(731.31)	(733.35)	(0.3%)	(0.5%)	(0.8%)
Headline earnings per share (cents)	(312.49)	(317.54)	(315.08)	(320.14)	(1.6%)	(0.8%)	(2.5%)
Core headline earnings per share (cents)	(304.77)	(311.94)	(308.16)	(315.34)	(2.4%)	(1.1%)	(3.5%)
Total number of shares in issue	904 201 466	904 201 466	904 201 466	904 201 466			
Weighted average number of shares in issue	913 208 055	913 208 055	913 208 055	913 208 055			
Net asset value per share (cents)	262.03	270.87	260.70	269.54	3.4%	(0.5%)	2.9%
Tangible net asset value per share (cents)	(2.78)	71.12	10.45	84.34	2659.3%	475.9%	3135.2%

Notes and assumptions:

- 1) The 'Before' column has been extracted without adjustment from the published audited Blue Label Group financial results for the year ended 31 May 2019.
- 2) The "*Pro forma* after the VAS Operations Transaction" column reflects the impact of the *pro forma* adjustments on Blue Label as a consequence of the VAS Operations Transaction, assuming that the solvency and liquidity of Cell C is proven.
- 3) The "*Pro forma* after the 3G Distribution Transaction" column reflects the impact of the *pro forma* adjustments on Blue Label as a consequence of the 3G Distribution Transaction.
- 4) The "*Pro forma* after the Proposed Transactions" column reflects the combined impact of the *pro forma* adjustments on Blue Label as a consequence of the VAS Operations Transaction and the 3G Distribution Transaction, assuming that the solvency and liquidity of Cell C is proven.
- 5) The detailed notes and assumptions to the *pro forma* financial effects are presented in Circular and the *pro forma* financial effects should be read in conjunction with the *pro forma* group statement of financial position and the *pro forma* Group income statement contained therein. The Independent Reporting Accountant's assurance report on the *pro forma* financial effects and *pro forma* financial information is contained in Circular.

8. SALIENT DATES AND TIMES

The salient dates and times relating to the Proposed Transactions are set out in the timetable hereunder.

Record date for Shareholders to be recorded in the Register in order to receive the Circular	Friday, 1 November 2019
Announcement of distribution of Circular and notice convening the General Meeting released on SENS on	Monday, 4 November 2019
Circular incorporating the Notice of General Meeting and Form of Proxy (<i>blue</i>), distributed to Shareholders on	Wednesday, 6 November 2019
Last day to trade Shares in order to be recorded in the Register to vote at the General Meeting (see note 2 below) on	Tuesday, 26 November 2019
Record date for a Shareholder to be registered in the Register in order to be eligible to attend and participate in the General Meeting and to vote thereat, by close of trade on	Friday, 29 November 2019
Forms of Proxy (<i>blue</i>) in respect of the General Meeting to be lodged at the Transfer Secretaries, preferably by 10:00 on	Tuesday, 3 December 2019
Forms of Proxy (<i>blue</i>) not lodged with the Transfer Secretaries to be handed to the chairperson of the General Meeting before the proxy exercises the rights of the Shareholder at the General Meeting on	Wednesday, 4 December 2019
General Meeting to be held at 10:00 on	Wednesday, 4 December 2019
Results of the General Meeting published on SENS on	Wednesday, 4 December 2019
VAS Operations Transaction anticipated to be implemented on or about	Friday, 20 December 2019
3G Distribution Transaction anticipated to be implemented on or about	Friday, 20 December 2019

Notes:

1. The above dates and times are subject to amendment at the discretion of Blue Label. Any such amendment will be released on SENS.
2. Shareholders should note that as transactions in Shares are settled in the electronic settlement system used by Strate, settlement of trades takes place three Business Days after such trade. Therefore, Shareholders who acquire Shares after close of trade on Tuesday, 26 November 2019 will not be eligible to attend, participate in and vote at the General Meeting.
3. All dates and times indicated above are South African Standard Time.

Sandton
4 November 2019

Financial Adviser and Sponsor
Investec Bank Limited

Legal Adviser to Blue Label
Werksmans Inc

Legal Adviser to DNI
CDH