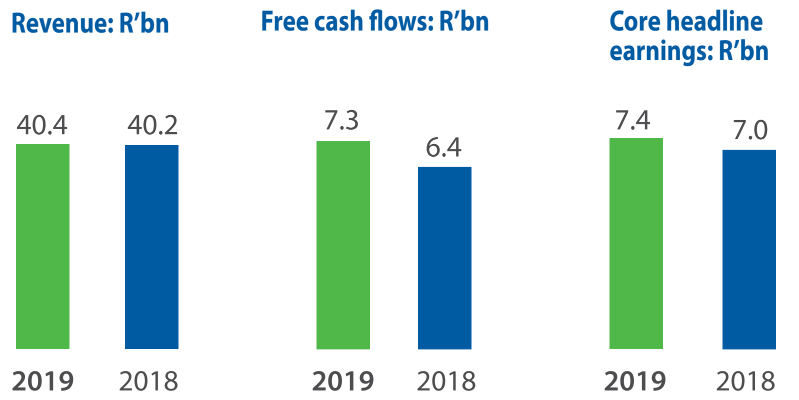
MULTICHOICE
ENRICHING LIVES

MULTICHOICE SOUTH AFRICA HOLDINGS PROPRIETARY LIMITED
(Registration number: 2006/015293/07) (MCSAH)

Annual results announcement

PHUTHUMA NATHI
SHARE THE FUTURE

Summary of the annual results of the MultiChoice South Africa group for the year ended 31 March 2019



The group closed the 2019 financial year with revenues maintained and marginal growth in core headline earnings, notwithstanding, tough economic conditions and competition pressures. A combination of growth from the mass market, improved subscriber churn management and significant cost control efforts contributed positively to sustained profitability.

As part of the Naspers Limited unbundling, Phuthuma Nathi empowerment schemes were allocated an extra 5% shareholding in MCSAH, for no consideration payable by Phuthuma Nathi shareholders.

We continue to deliver unrivalled local and international content, including our live coverage of the 2018 Fifa World Cup and the best local telenovelas such as *Isibiya*, *The River* and *The Queen.* Fresh and exclusive content such as *Younger* and *Succession* and locally produced content such as *The girl from St Agnes* on Showmax have contributed to encouraging growth in unique monthly viewers and consumption hours viewed of local content.

FINANCIAL REVIEW

We have maintained consolidated revenues at the R40bn mark. We continue to capture growth in the mass market, while growth in the Compact market is reflective of a maturing segment and growth in the Premium market declining. The average revenue per user (ARPU) declined from R335 to R322 due to absorbing the value added tax (VAT) increase, from 14% to 15%, and the continued subscriber mix change to the mass market. Trading profit is comparable with the prior reporting year at R10.3bn, and margins remained stable at 25%. We remain focused on optimising cost structures to maintain our margins, despite topline pressure. The group generated a positive free cash flow of R7.3bn, up R0.9bn, largely due to lower sport content prepayments than the prior year.

The group's total tax contribution amounted to R6.9bn (direct R2.8bn and indirect R4.1bn) in FY2019, making us one of the largest taxpayers in South Africa.

MultiChoice South Africa paid a dividend of R6.6bn to its ordinary shareholders in September 2018 of which Phuthuma Nathi companies received a dividend of R1.32bn in September 2018. Phuthuma Nathi shareholders continue to enjoy a healthy return with the scheme still outperforming its peers.

PROSPECTS

Looking ahead, the MultiChoice South Africa group's priority is to continue to grow the mass market segment, while delighting and retaining our existing customer base with our entertainment offering. We aim to maintain operational excellence and agility through cost reductions and efficiencies to continue to deliver strong returns for our shareholders. Our investments in technology innovations and the security of our systems will continue, while we anticipate that our online platforms will gain traction and secure the customer base required to ensure the long-term sustainability of our business. We will make further investment in the development of our people and our social initiatives to make a meaningful impact in the communities where we operate.

OPERATIONAL REVIEW

Despite a tough economic climate in South Africa, we achieved subscriber growth of 511 500 subscribers. Our DStv brand is a household name in South Africa and enjoys considerable support. We measure this through our strong performance in customer satisfaction metrics and new take up of our products.

During the year, we concluded an initiative to align our structures with the company strategy and to reposition the business for growth. The work in reducing our cost base to maintain our margins will continue. We will also continue to develop and invest in systems, machine learning and artificial intelligence capabilities to enable our growth in the future, including investing and developing the required talent and capabilities.

Technology

Globally, over-the-top (OTT) services are stimulating the video-entertainment market while at the same time changing how customers are consuming video, with overall hours watched per week growing consistently. We anticipated OTT to continue along this trajectory and built a compelling offering in response. This includes DStv Now, a complementary service to direct-to-home subscribers (DTH) and Showmax, our standalone OTT product.

The Connected Video division has focused its efforts on our digital properties, and we are seeing results. During 2019, we strengthened our catalogue and introduced more first-run, exclusive-to-Showmax titles. *The Girl From St Agnes* was the second original production from Showmax and the service's first original drama. It broke all first-day viewing records on Showmax and has been a strong driver of customer acquisition, emphasising that relevant, high-quality local content is an important differentiator.

During 2018 we offered Showmax free to Premium customers and discounted to Compact customers, resulting in excellent uptake of the product among the DStv subscriber base. Significant growth was also recorded in standalone subscriptions. The Vodacom Give-Zero-Bucks promotion, launched in November 2018, offering three months for free followed by a discounted price, as well as a joint campaign with Telkom, helped to generate a significant number of new subscribers.

Owners of Explora decoders can access the service directly from their decoders, and several usability improvements were made to increase ease of use and access for these customers.

Explora penetration, BoxOffice rentals and connected Explora connections continue to grow and add value to the customer experience. Our digital strategy is key for securing our future and we have improved our online user base with a promising portion of the South African subscriber base now utilising online MultiChoice products. During FY2019 we recorded 188 000 new connections for connected Exploras, bringing the total connected base to 495 000.

The DStv Now service is available to all DTH subscribers across subscription tiers, allowing customers access to channels and content at no extra cost on a variety of devices. This service includes a free tier available to anyone with an internet connection, regardless of being a subscriber or not, and saw excellent growth in uptake and engagement during the year.

Content

Our programming, which includes local and international general entertainment and sport content, remains relevant to our subscribers. We are also developing and investing in more local content for both our pay-TV and OTT offering. Our continued investment in local content, primarily through the Mzansi group of channels, is well received by subscribers with our channels among the top performers in their peer group. It is crucial to contain the continuously rising content costs, given the pressures we face on ARPU, revenue growth and margins. We delivered well by reducing overall costs while increasing investment in local content and navigating significant cost pressures from suppliers, driven by continued competition for content.

Transformation and corporate social investment

Once again MultiChoice achieved a level 1 BBBEE rating by embracing diversity and ensuring employment equity through robust diversity management practices. We remain dedicated to our transformation programmes and playing a key role in transforming our industry.

Our employee profile comprises 57% women and 43% men, demonstrating an improvement as compared with the prior year. Our leadership teams are diverse and proudly representative, with 51% of top and senior management being black, of which 40% are women and 88% of the overall South African organisation comprising black talent.

We continue to contribute meaningfully towards corporate social responsibility programmes such as the MultiChoice Diski Challenge, Magic in Motion Academy and SuperSport's Let's Play initiatives. Our total corporate social investment during 2019 was R90m.

Regulatory

Our industry is highly regulated. Recent years saw several policy reviews, sector inquiries and reviews initiated by regulators or our competition, resulting in increased complexity in our operating environment. These include a review of the broadcast sector, proposed amendments to copyright legislation, and an inquiry into the state of competition in the broadcasting sector. Our approach to regulatory changes involves proactive and positive engagement and providing input into relevant industry discussions that have the potential to lead to regulatory changes.

DIRECTORATE

During FY2019, Imtiaz Patel stepped down as CEO and is currently serving as executive chair of MultiChoice Group. Calvo Mawela was appointed CEO on 1 November 2018. Uvashni Raman, who served as CFO for MCSAH since 2016, resigned and Tim Jacobs was appointed CFO on 1 November 2018. Louisa Stephens and Octavia Matloa were appointed as independent non-executive directors on 6 August 2018. As a result of the unbundling referred to below, Bob van Dijk resigned from the board with effect from 2 January 2019. Octavia Matloa will step down as a director with effect from 30 June 2019.

GROUP COMPANY SECRETARY

Rochelle Gabriels relinquished her secretarial duties at the end of March 2019 and Donna Dickson joined as group company secretary with effect from 1 April 2019.

ANNUAL GENERAL MEETINGS

The MCSAH, Phuthuma Nathi Investments (RF) Limited (PN) and Phuthuma Nathi Investments 2 (RF) Limited (PN2) annual general meetings (AGMs) will be held on 28 August 2019.

DIVIDENDS

Given our positive financial performance and consideration of challenging operating conditions, including rising costs, revenue pressure and plans to invest in online and emerging technologies, the MultiChoice South Africa board recommends that a dividend of R6bn be paid to its ordinary shareholders in September 2019. This would result in a dividend of R1bn (2018: R880m) for PN and R500m (2018: R440m) for PN2.

EMPOWERMENT TRANSACTION

The group remains fully committed to broad-based black economic empowerment and transformation. To reinforce this, on 4 March 2019, the date of the group unbundling from Naspers Limited, the group allocated, for no consideration, an additional 5% stake in the MultiChoice South Africa group to Phuthuma Nathi, our black economic empowerment scheme. The value of the 5% has been calculated at R2.6bn. Further details of this transaction can be obtained in note 1 of this annual results announcement.

The Phuthuma Nathi boards recommend that a dividend of 2 222.22 cents per ordinary share be paid to PN and PN2 shareholders. This will result in a total dividend received by PN and PN2 shareholders of R1.5bn.

Unless a PN shareholder is exempt from paying dividend tax, dividend tax of 20% per PN share is 444.44 cents. PN shareholders will therefore receive a total net dividend of 1 777.78 cents, payable in FY2020 (FY2019: 1 564.45 cents). All dividends declared in this report will be paid from reserves and are subject to the approval of shareholders at the AGMs on 28 August 2019. If approved, these dividends will be payable to shareholders recorded in the share register on 28 August 2019 and paid on or about 6 September 2019.

We look forward to an ongoing and prosperous relationship with our Phuthuma Nathi shareholders.

BASIS OF PRESENTATION

These summarised consolidated financial statements for the year ended 31 March 2019 have been extracted from the full set of audited consolidated annual financial statements for the same period, prepared in accordance with International Financial Reporting Standards (IFRS), the SAICA Financial Reporting Guides issued by the Accounting Practices Committee and financial pronouncements issued by the Financial Reporting Standards Council. As a minimum, these statements contain the information required by IAS 34 *Interim Financial Reporting* and in the manner required by the Companies Act of South Africa. Accounting policies applied in preparing the consolidated financial statements from which the summary financial statements were derived are aligned with IFRS and consistent with those applied in preparing the previous consolidated annual financial statements.

The group has adopted all new and amended accounting pronouncements issued by the International Accounting Standards Board (IASB), effective for financial years beginning on 1 April 2018. (Refer to note 2).

The statement of financial position reflects the carrying value of assets and liabilities. Trading profit excludes amortisation of intangible assets (other than software), impairment of assets, other gains or losses and equity-settled share-based compensation, but includes the finance cost on transponder leases. Core headline earnings exclude non-recurring and non-operating items – we believe this is a useful measure of the group's sustainable operating performance. However, core headline earnings and trading profit are not defined terms under IFRS, are not reviewed, and may not be comparable with similarly titled measures reported by other companies.

These reviewed financial results have been prepared under the supervision of the MCSAH chief financial officer, Tim Jacobs CA(SA).

The complete annual financial statements are available on the MultiChoice and Phuthuma Nathi websites: **www.multichoice.com/southafrica** and **www.phuthumanathi.co.za.**

REPORT OF THE INDEPENDENT AUDITOR

The annual financial statements have been audited by the company's auditor, PricewaterhouseCoopers Inc., whose unqualified audit reports on the annual financial statements and annual results announcement are available for inspection at the registered office of the company and on the company's website. The auditor's report does not necessarily cover all the information in this annual results announcement. Shareholders are advised that to obtain a complete understanding of the nature of the auditor's work they should obtain a copy of that report, together with the annual financial statements, from the registered office of the company or the company's website.

On behalf of the board
Nolo Letele
Executive chair

18 June 2019
Randburg

Summarised consolidated statement of profit or loss

	Year ended 31 March 2019 R'm	Year ended 31 March 2018 R'm
Revenue	40 391	40 165
Cost of providing services and sale of goods	(21 439)	(21 544)
Selling, general and administration expenses	(8 550)	(7 959)
Other gains	19	18
Operating profit	10 421	10 680
Interest received	310	320
Interest paid	(644)	(645)
Foreign exchange (losses)/gains	(1 541)	660
Empowerment transaction[1]	(2 564)	–
Share of equity-accounted results	(111)	(97)
Impairment of equity-accounted investments	(61)	–
Acquisitions and disposals	–	118
Profit before taxation	5 810	11 036
Taxation	(2 344)	(3 247)
Profit for the period	3 466	7 789
Attributable to:		
Equity holders of the group	3 466	7 789
Core headline earnings for the year (R'm)	7 442	7 030
Headline earnings for the year (R'm)	3 557	7 692

Reconciliation of operating profit to trading profit

	Year ended 31 March 2019 R'm	Year ended 31 March 2018 R'm
Operating profit	10 421	10 680
Finance cost on transponder leases	(384)	(373)
Amortisation of intangible assets	30	38
Impairment of assets	46	–
Equity-settled share-based compensation[2]	162	6
Other (losses)/gains	(20)	33
Trading profit	10 255	10 384

Summarised consolidated statement of comprehensive income and changes in equity

	Year ended 31 March 2019 R'm	Year ended 31 March 2018 R'm
Balance at the beginning of the year	8 868	8 098
Changes in accounting policy[3]	107	–
Profit for the year	3 466	7 789
Total other comprehensive income, net of tax, for the year	1 728	(486)
Cash flow hedges	2 259	(609)
Revaluation of investments	50	(47)
Tax on other comprehensive income	(581)	170
Changes in other reserves		
Share-based comprehensive movement	2 737	(33)
Dividends paid to shareholders	(6 600)	(6 500)
Other movements in retained earnings	(31)	–
Movement in foreign currency translation reserve	25	–
Balance at the end of the year	10 300	8 868
Comprising:		
Share capital and premium	17 216	17 216
Retained earnings	4 367	7 423
Share-based compensation reserve	2 757	21
Existing control business combination reserve	(15 051)	(15 051)
Hedging reserve	825	(852)
Fair-value reserve	161	111
Movement in foreign currency translation reserve	25	–
Total	10 300	8 868

Summarised consolidated statement of financial position

	As at 31 March 2019 R'm	As at 31 March 2018 R'm
ASSETS		
Non-current assets	16 041	17 047
Current assets	13 989	10 053
Total assets	30 030	27 100
EQUITY AND LIABILITIES		
Capital and reserves	10 300	8 868
Non-current liabilities	10 212	8 877
Current liabilities	9 518	9 355
Total equity and liabilities	30 030	27 100

Commitments

	Year ended 31 March 2019 R'm	Year ended 31 March 2018 R'm
Capital expenditure	63	92
Programme and film rights	32 195	32 782
Network and other service commitments	1 790	664
Operating lease commitments	172	216
Set-top-box commitments	1 725	1 764
Commitments	35 946	35 518

Summarised consolidated statement of cash flows

	Year ended 31 March 2019 R'm	Year ended 31 March 2018 R'm
Cash flow generated from operating activities	8 558	7 461
Cash flow utilised in investing activities	(645)	(390)
Cash flow utilised in financing activities	(8 431)	(7 325)
Net movement in cash and cash equivalents	(518)	(254)
Foreign exchange translation adjustments	326	(74)
Cash and cash equivalents at the beginning of the year	2 273	2 601
Cash and cash equivalents at the end of the year	2 080	2 273

Calculation of headline and core headline earnings

	As at 31 March 2019 R'm	As at 31 March 2018 R'm
Net profit attributable to shareholders	3 466	7 789
Adjusted for:		
– Loss/(profit) on sale of property, plant and equipment	1	(3)
– Impairment of assets	56	–
– Reversal of impairment of assets	(10)	–
– Impairment of investments	61	–
– Profit on sale of investments	–	(118)
– Profit on sale of intangible assets	(3)	(4)
	3 571	7 664
Total tax effects of adjustments	(14)	28
Headline earnings	3 557	7 692
Adjusted for:		
– Amortisation of intangible assets	27	33
– Foreign exchange losses/(gains)	1 172	(710)
– Empowerment transaction	2 564	–
– Equity-settled share-based compensation	162	6
– Realisation of forex (losses)	(40)	–
– Deferred tax for provision reversal	–	9
Core headline earnings	7 442	7 030
Number of shares ('000)	360 000	337 500

Note

[1] Empowerment transaction
On 4 March 2019, the date of the group unbundling from Naspers Limited, the group allocated, for no consideration, an additional 5% stake in MultiChoice South Africa Holdings Proprietary Limited (MCSAH) to Phuthuma Nathi Investments (RF) Limited and Phuthuma Nathi Investments 2 (RF) Limited (collectively Phuthuma Nathi). In terms of IFRS 2 *Share-based Payments*, this transaction is treated as an equity-settled share-based payment. The value of the 5% to Phuthuma Nathi shareholders has been calculated at R2.6bn which has been included in the summarised consolidated income statement and in "Retained earnings" in the summarised consolidated statement of changes in equity.

[2] Equity-settled share-based compensation
In the current year the equity-settled shared-based payment is included in the trading profit reconciliation and the FY2018 number has been adjusted for comparability. It will not have a material impact on the FY2018 reported numbers.

[3] Changes in accounting policy
Change in accounting policies include the adoption of IFRIC 22 *Foreign Currency Transactions and Advance Considerations*, which resulted in a R155m adjustment to opening retained earnings and a R48m adjustment made in respect of the adoption of IFRS 9 *Financial Instruments*.

Directors
S Dakile-Hlongwane, D G Eriksson, T Jacobs, F L N Letele (executive chair), E Masilela, OM Matloa, CP Mawela, K D Moroka, S J Z Pacak, K B Sibiya, L Stephens, J J Volkwyn.

Group company secretary
D M Dickson

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