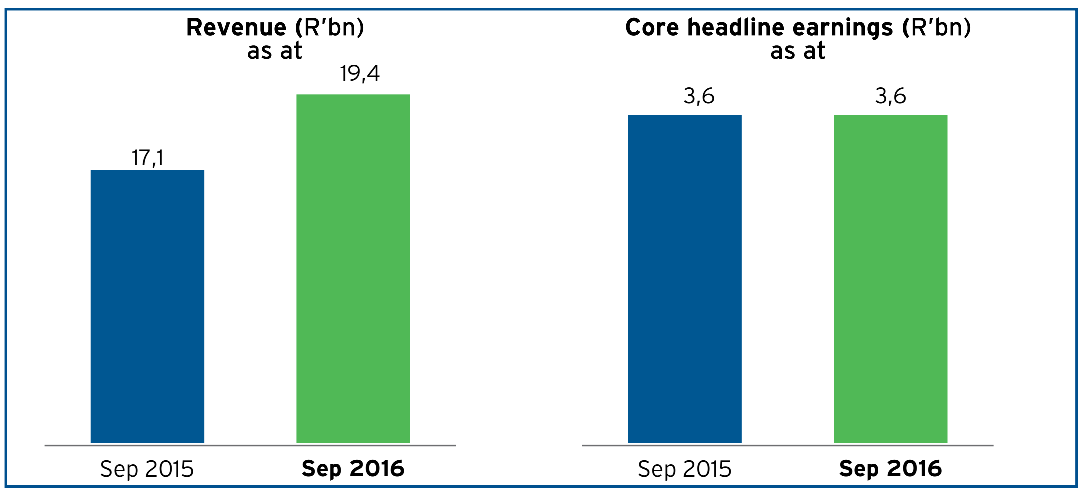
Interim report

Summary of the reviewed results of the MultiChoice group for the six months ended 30 September 2016

MultiChoice South Africa Holdings Proprietary Limited
(Registration number 2006/015293/07)
(MultiChoice or the group)



The MultiChoice group has had a reasonable first half of the financial year in extremely tough trading conditions.

The contraction in the South African economy continues to impact our customers. Increased competition and the rand depreciation contributed to rising international dollar-based content costs. This, together with further investments in new technologies and ShowMax, has resulted in a modest 2% increase in our trading profit. We continue to focus on cost reduction.

Despite the current environment, we have not compromised on delivering unrivalled local and international content, demonstrated by our dedicated coverage of the 2016 Rio Olympics on seven high-definition (HD) channels, the coverage of the Euro 2016 football and the best local and international shows such as Isibaya and Suits. The successful launch of our new satellite during the period further demonstrates our commitment to enhancing our content and product offerings to our customers.

FINANCIAL REVIEW

Growth in our customer base combined with improved programming and advertising revenues resulted in consolidated revenues increasing to R19,4bn. A significant increase in content costs, largely due to an increase in the contract values of sport rights and the weakening in the rand/dollar exchange rate, effectively consumed the revenue growth resulting in a 2% trading profit increase to end on R5,1bn. Core headline earnings remained in line with the prior period at R3,6bn. The group generated positive free cash flows of R3,6bn (2015: R2,2bn) during the review period. The higher cash flow, when compared to the prior period, is mainly due to the settlement of outstanding intercompany receivables with our African counterparties.

Consistent with our goal of being a responsible corporate citizen we contributed just over R3,3bn in direct and indirect taxes during the review period, which makes us one of the largest taxpayers in South Africa. At 30 September 2016 we had a total workforce, including independent service providers, of close to 8 000 people.

The initial recognition of several new sport rights resulted in an increase in content liabilities on the balance sheet and a corresponding decrease of R7,6bn in programme and film rights commitments. The capitalisation of our new satellite during the period resulted in an increase of fixed assets and lease liabilities of R7,9bn and a corresponding decrease in transponder lease commitments.

The assets and liabilities of Smart Village, a wholly owned subsidiary of the group, remain classified as held for sale at 30 September 2016.

A dividend of R6,5bn (2015: R6,2bn) was paid to ordinary shareholders in early September 2016. The Phuthuma Nathi companies received a total of R1,3bn of the dividend. Phuthuma Nathi shareholders who have retained their investment since inception of the Phuthuma Nathi schemes have achieved remarkable growth of over 20 times their initial investment as measured on date of payment of the dividends.

OPERATIONAL REVIEW

During the review period we grew our customer base by 316 000 customers allowing us to surpass 6m subscribers for the first time.

Technology

Uptake of our personal video recorder (PVR), the Explora, remains strong and customers who make use of the Explora continue to report high levels of satisfaction. We have recently announced the launch of a new model PVR, the Explora 2. The Explora 2 makes use of newer compression technology which will allow for smaller video files to be used on the DStv Catch Up and BoxOffice video-on-demand services. The new Explora 2 will have a dedicated ShowMax button allowing subscribers to access the extensive content offered by ShowMax.

The DStv Now, 'TV Everywhere' product, continues to grow in popularity and usage as customers watch their favourite linear and on-demand content on the go. Several new features have been added recently to this product, including the addition of 17 new channels, and the integration of a number of self-service features.

The BoxOffice service has also seen a number of improvements with the extension of the number of available titles from 20 to 30. The introduction of Bollywood content into the service has also created much excitement among our customers.

During the review period ShowMax expanded its content library to almost 30 000 TV show episodes and movies, maintaining its position as the largest subscription video-on-demand (VOD) catalogue in Africa. ShowMax was added to connected Explora devices in June 2016. In September 2016 ShowMax surpassed the 20m views mark.

The launch of our new satellite on 24 August 2016 not only increased our broadcast capacity, but will ensure that our customers continue to get the best quality content and viewing environment possible. Customers will have experienced the benefits of the new satellite first-hand with the initial launch of nine additional HD channels in October.

CSI (corporate social investment)

Our investments in corporate social initiatives, enterprise development and local manufacture ensure that we continue to uplift and make a lasting contribution to our communities.

Let's Play relaunched the physical education challenge during the period, reaching a record 651 primary schools, engaging just over 600 000 learners. With the assistance of various stakeholders, Let's Play continues to build playing fields at primary schools across South Africa in an effort to ensure that our learners have suitable playing facilities. Let's Play is now recognised by the Department of Basic Education as an implementation partner of sport in South African schools.

The MultiChoice Diski Challenge, a football development programme, has created opportunities for young, aspiring footballers to become professionals, as well as creating a platform for interns working towards a career in broadcasting. To date, 189 football matches have been played, more than 90 players were promoted to their first teams and 89 players debuted for national teams. Seventy-five of the matches were screened live on SuperSport and community television stations, and these were produced by more than 40 broadcast trainees. The tournament's stature in the football fraternity has continued to grow with a greater number of spectators attending games year on year.

The M-Net Magic in Motion Academy plays a critical role in contributing skills in the film and TV industry. It gives young South Africans on-the-job training and the opportunity to work with experienced producers to get hands-on experience. Twelve students have already been trained and are making their mark in the industry. During their training they produced four feature films, which were broadcast – to great acclaim – on Mzansi Magic. This year, 20 students will get training and produce four films – also to be shown on Mzansi Magic.

Content

Providing our customers with the best in local entertainment remains a key objective for the group. Our contributions to the local production industry through entertainment and sport content increased to over R950m (2015: R906m) and R630m (2015: R547m) respectively during the review period.

Mzansi Magic remains one of M-Net's most popular channels, with weekday telenovelas continuing to drive appointment viewing. A new telenovela, The Queen, about a dedicated wife, mother and successful businesswoman is proving extremely popular. The inclusion of Idols SA (season 12) on Mzansi Magic has been extremely successful in engaging customers ensuring that Sunday nights remain a favourite among viewers. A local version of reality show Shark Tank made its debut on M-Net 101 in October.

New content highlights for kykNET viewers include the crime drama Die Byl, Varsity Sing, the Western Cape soapie Suidooster, and the channel's most popular reality show, Boer Soek 'n Vrou.

SuperSport continues its significant contribution to sport in South Africa through investments in local leagues at all levels, by way of broadcast licence fees, production of games, developing local administrators and production crews, improving facilities and helping federations to obtain sponsorships.

We broadcast two major sporting events during the review period namely; the Rio Summer Olympics and the 2016 Euro Soccer extravaganza in France. Delivery of our content via our state-of-the-art studios, unsurpassed on-air and online coverage with live streaming, highlights, expert commentary and an international line-up of studio guests continue to set us apart from other broadcasters.

A review of the various channels on DStv coupled with customer feedback, saw M-Net movie channels streamlined and M-Net international series channels sharpening their offering. M-Net movie channels were consolidated from nine to seven, offering customers more fresh movies. Pop-up channels have proven to be popular with customers offering a fresh burst of entertainment – the M-Net Movies Blackout pop-up channel celebrated African American movies, while M-Net's Movies BlockParty pop-up channel celebrates M-Net's 30th birthday, and our channel that paid tribute to sporting legend Muhammad Ali rated extremely well.

At 30 September 2016 we offered 27 HD channels to our customers.

Regulatory

The Department of Trade and Industry has circulated the second draft of the Copyright Amendment Bill. There are a number of other regulatory matters in the spotlight and we'll keep working closely with both government and the Independent Communications Authority of South Africa (Icasa), to find solutions that will be in the best interest of the industry.

BASIS OF PRESENTATION

The condensed consolidated interim financial statements are prepared in accordance with International Financial Reporting Standard IAS 34: *Interim Financial Reporting*, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Pronouncements as issued by the Financial Reporting Standards Council, and the requirements of the Companies Act of South Africa. The accounting policies applied in preparing these interim financial statements are in terms of International Financial Reporting Standards and are consistent with those applied in the previous consolidated annual financial statements.

The business is managed under one video-entertainment segment. The balance sheet reflects the fair value of assets and liabilities.

Trading profit excludes amortisation of intangible assets (other than software), impairment of assets and other gains or losses but includes the finance cost on transponder leases. Core headline earnings exclude non-recurring and non-operating items. We believe it is a useful measure of the group's sustainable operating performance. However, core headline earnings and trading profit are not defined terms under International Financial Reporting Standards (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 group's chief financial officer, Uvashni Raman CA(SA).

REPORT OF THE INDEPENDENT AUDITOR

These condensed consolidated interim financial statements for the period ended 30 September 2016 have been reviewed by the company's auditor, PricewaterhouseCoopers Inc., whose unqualified report is available for inspection at the company's registered office and on its website, together with the financial statements identified in the auditor's report.

On behalf of the board

Nolo Letele	**Imtiaz Patel**	Randburg
Chair	*Acting chief executive*	25 November 2016

Directors

F L N Letele (chair), S Dakile-Hlongwane, D G Eriksson, K D Moroka, B van Dijk, S J Z Pacak, M I Patel, K B Sibiya, J J Volkwyn, E Masilela, U Raman

Group company secretary

L J Klink

Registered office

144 Bram Fischer Drive, Randburg 2194 (PO Box 1502, Randburg 2125)

Transfer secretaries

Equity Express, a division of Singular Systems Proprietary Limited
71 Corlett Drive, Birnam 2196 (PO Box 1244, Bramley 2018)

Consolidated statements of profit or loss

	Six months ended 30 September 2016 R'm	2015 R'm	Year ended 31 March 2016 R'm
Revenue	**19 402**	17 116	35 704
Cost of providing services and sale of goods	**(10 289)**	(8 421)	(19 187)
Selling, general and administration expenses	**(3 819)**	(3 592)	(7 179)
Operating profit	**5 294**	5 103	9 338
Interest received	**120**	105	153
Interest paid	**(272)**	(226)	(547)
Foreign exchange losses	**(290)**	(305)	(544)
Share of equity-accounted results	**(40)**	(29)	(43)
(Impairment of equity-accounted investments)/Reversal	**–**	(2)	(37)
Acquisitions and disposals	**3**	–	–
Profit before taxation	**4 815**	4 646	8 320
Taxation	**(1 367)**	(1 328)	(2 315)
Profit for the period	**3 448**	3 318	6 005
Attributable to:			
Equity holders of the group	**3 448**	3 318	6 005
Core headline earnings for the period (R'm)	**3 636**	3 625	6 879
Headline earnings for the period (R'm)	**3 437**	3 312	6 032

Reconciliation of operating profit to trading profit

	Six months ended 30 September 2016 R'm	2015 R'm	Year ended 31 March 2016 R'm
Operating profit	**5 294**	5 103	9 338
Finance cost on transponder leases	**(119)**	(106)	(228)
Amortisation of intangible assets	**17**	11	27
Impairment of assets	**(69)**	–	48
Other losses	**(13)**	(4)	18
Trading profit	**5 110**	5 004	9 203

Condensed consolidated statements of comprehensive income and changes in equity

	Six months ended 30 September 2016 R'm	2015 R'm	Year ended 31 March 2016 R'm
Balance at the beginning of the period	**8 283**	8 346	8 346
Profit for the period	**3 448**	3 318	6 005
Total other comprehensive income, net of tax, for the period	**(427)**	142	112
Translation of foreign operations	**–**	(7)	(8)
Cash flow hedges	**(540)**	206	(84)
Revaluation of investments	**(14)**	–	158
Tax on other comprehensive income	**127**	(57)	46
Share-based comprehensive movement	**16**	8	20
Dividends paid to shareholders	**(6 500)**	(6 200)	(6 200)
Balance at the end of the period	**4 820**	5 614	8 283
Comprising:			
Share capital and premium	**17 216**	17 216	17 216
Retained earnings	**2 607**	2 975	5 660
Share-based compensation reserve	**216**	187	199
Existing control business combination reserve	**(15 088)**	(15 088)	(15 088)
Hedging reserve	**(292)**	307	120
Fair-value reserve	**161**	17	176
Total	**4 820**	5 614	8 283

Condensed consolidated statements of financial position

	Six months ended 30 September 2016 R'm	2015 R'm	Year ended 31 March 2016 R'm
ASSETS			
Non-current assets	**17 913**	12 283	12 788
Current assets	**13 084**	12 796	10 675
Non-current assets classified as held for sale	**158**	104	140
Total assets	**31 155**	25 183	23 603
EQUITY AND LIABILITIES			
Capital and reserves	**4 820**	5 614	8 283
Non-current liabilities	**14 858**	6 383	5 616
Current liabilities	**11 458**	13 169	9 689
Non-current liabilities classified as held for sale	**19**	17	15
Total equity and liabilities	**31 155**	25 183	23 603

Condensed consolidated statements of cash flows

	Six months ended 30 September 2016 R'm	2015 R'm	Year ended 31 March 2016 R'm
Cash flow generated from operating activities	**4 095**	2 649	6 731
Cash flow utilised in investing activities	**(325)**	(425)	(1 237)
Cash flow utilised in financing activities	**(2 483)**	(2 341)	(6 057)
Net movement in cash and cash equivalents	**1 287**	(117)	(563)
Foreign exchange translation adjustments	**(147)**	34	352
Cash and cash equivalents at the beginning of the period	**2 286**	2 493	2 493
Reclassification of cash to held for sale	**2**	17	4
Cash and cash equivalents at the end of the period	**3 428**	2 427	2 286

Commitments

	Six months ended 30 September 2016 R'm	2015 R'm	Year ended 31 March 2016 R'm
Capital expenditure	**180**	448	29
Programme and film rights	**23 912**	31 498	30 986
Network and other service commitments	**1 640**	2 881	1 994
Transponder leases	**236**	8 086	8 467
Operating lease commitments	**208**	144	229
Set-top box commitments	**781**	793	422
Commitments	**26 957**	43 850	42 127

Financial instruments

The condensed consolidated interim report does not include all financial risk management information and disclosures required in the annual financial statements and should be read in conjunction with the group's annual financial statements as at 31 March 2016. There have been no material changes in the group's credit, liquidity, market risks or key inputs used in measuring fair value since 31 March 2016.

The fair values of the group's financial instruments that are measured at fair value at each reporting period are categorised as follows:

	Fair-value measurements at 30 September 2016 using:		
	Quoted prices in active markets for identical assets or liabilities (level 1) R'm	**Significant other observable inputs (level 2) R'm**	**Significant unobservable inputs (level 3) R'm**
Assets			
Available-for-sale investments	**156**	**–**	**–**
Foreign exchange contracts	**–**	**56**	**–**
Currency devaluation features	**–**	**–**	**139**
Liabilities			
Foreign exchange contracts	**–**	**533**	**–**
	Fair-value measurements at 30 September 2015:		
Assets			
Foreign exchange contracts	–	824	–
	Fair-value measurements at 31 March 2016:		
Assets			
Available-for-sale investments	170	–	–
Foreign exchange contracts	–	566	–
Currency devaluation features	–	–	161
Liabilities			
Foreign exchange contracts	–	175	–

A reconciliation of the movements in the carrying values of level 3 fair-value measurements is provided below:

	Six months ended 30 September 2016 R'm	2015 R'm	Year ended 31 March 2016 R'm
Opening balance	**161**	–	–
Total gains/losses in profit or loss	**9**	–	119
Transferred to receivables	**(112)**	–	–
Recognised against cost of asset	**81**	–	42
Closing balance	**139**	–	161

Calculation of headline and core headline earnings

	Six months ended 30 September 2016 R'm	2015 R'm	Year ended 31 March 2016 R'm
Net profit attributable to shareholders	**3 448**	3 318	6 005
Adjusted for:			
– Loss/(Profit) on sale of property, plant and equipment	**(11)**	1	13
– Impairment of assets	**–**	2	39
– Third-party compensation	**–**	(9)	(13)
– Gain on remeasurement of previously held interest	**(2)**	–	–
– Profit on sale of intangible assets	**–**	(3)	(3)
	3 435	3 309	6 041
Total tax effects of adjustments	**2**	3	(9)
Headline earnings	**3 437**	3 312	6 032
Adjusted for:			
– Amortisation of intangible assets	**14**	11	19
– Foreign exchange losses	**169**	295	806
– IFRS 2 equity-settled changes	**16**	7	22
Core headline earnings	**3 636**	3 625	6 879
Number of shares ('000)	**337 500**	337 500	337 500

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INDEPENDENT AUDITOR'S REVIEW REPORTING ON INTERIM FINANCIAL STATEMENTS

To the shareholders of MultiChoice South Africa Holdings Proprietary Limited

We have reviewed the condensed consolidated interim financial statements of MultiChoice South Africa Holdings Proprietary Limited in the accompanying interim report, which comprise the condensed consolidated statement of financial position as at 30 September 2016 and the related consolidated statement of profit or loss and condensed consolidated statement of changes of comprehensive income, changes in equity and cash flows for the six months then ended, and selected explanatory notes.

Directors' responsibility for the interim financial statements

The directors are responsible for the preparation and presentation of these interim financial statements in accordance with the International Financial Reporting Standard, (IAS) 34 *Interim Financial Reporting*, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of interim financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on these interim financial statements. We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. ISRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the interim financial statements are not prepared in all material respects in accordance with the applicable financial reporting framework. This standard also requires us to comply with relevant ethical requirements.

A review of interim financial statements in accordance with ISRE 2410 is a limited assurance engagement. We perform procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluate the evidence obtained.

The procedures in a review are substantially less than and differ in nature from those performed in an audit conducted in accordance with International Standards on Auditing. Accordingly, we do not express an audit opinion on these interim financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements of MultiChoice South Africa Holdings Proprietary Limited for the six months ended 30 September 2016 are not prepared, in all material respects, in accordance with the International Financial Reporting Standard, (IAS) 34 *Interim Financial Reporting*, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and the requirements of the Companies Act of South Africa.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: SN Madikane
Registered Auditor
Johannesburg
25 November 2016

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