BLUE LABEL TELECOMS

CONNECTING OUR world to yours

Reviewed results

for the half-year ended 30 November 2019

Highlights

Increase in revenue of

2%

to R11.5 billion*

Increase in gross profit of

10%

to R1.21 billion

Increase in gross profit margin from 9.75% to

10.52%

* *On inclusion of the gross amount generated on "PINless top-ups", prepaid electricity, ticketing and gaming, the effective increase equated to 12% from R27.1 billion to R30.3 billion*

Commentary

The Blue Label Group generated growth in revenue, gross profit and core headline earnings per share for the half-year ended 30 November 2019. This was a resilient performance in an adverse economic environment. The Group continues to increase market share and bolster its product and services mix to defend and grow its positions in the market.

Earnings per share and headline earnings per share increased from a negative 15.11 and 17.54 cents per share to a positive 34.83 and 39.98 cents per share respectively. Core headline earnings for the half-year ended 30 November 2019 amounted to R390 million, equating to core headline earnings of 43.18 cents per share compared to core headline losses of 13.90 cents per share in the comparative period.

The comparative period reflected fair value losses of R493 million relating to the exposure to SPV1 and SPV2 (as referred to in the SENS announcement dated 22 February 2019) as well as to the recognition of the Group's share of equity-accounted losses in Cell C of R133 million. On exclusion of these negative contributions, core headline earnings amounted to R487 million in that period.

No further fair value losses relating to the SPVs were recognised in the current reporting period as the exposure thereto was fully accounted for as at 31 May 2019. As the carrying value of Blue Label's investment in Cell C was fully impaired for the year ended 31 May 2019, the financial results of Cell C during the current period did not have any impact on Blue Label's earnings for this reporting period.

Core headline earnings for the current period amounted to R390 million, inclusive of non-recurring once-off costs of R61 million, of which R50 million pertained to extraneous expenditure within the retail division and R11 million to a fair value loss as a consequence of providing for an increase in the put option liability for the acquisition of the remaining 40% minority share of Airvantage and AV Technology which will be settled during the current calendar year.

The comparative period of R487 million included non-recurring income of R48 million, of which foreign exchange gains accounted for R25 million and finance income for R13 million. These movements related to loans provided to Oxigen Services India and 2DFine Holdings Mauritius. No further income in this regard was accounted for in the current reporting period as the loans were fully impaired as at 31 May 2019. The balance of R10 million related to a fair value gain as a result of providing for a decline in the put-option liability mentioned above.

On exclusion of the above extraneous costs of R61 million in the current period and the non-recurring income of R48 million in the comparative period, core headline earnings generated from trading operations increased from R439 million to R451 million.

Agreements for the disposal of Blue Label's interests in Blue Label Mobile Group Proprietary Limited (Blue Label Mobile) and the handset division of 3G Mobile Proprietary Limited (3G Mobile) were entered into on 25 September 2019. Consequently, the earnings generated by these entities have been accounted for as discontinued operations in both the current and comparative reporting periods. The related assets and liabilities have been reclassified in the Group's statement of financial position as "assets/liabilities held-for-sale".

Headline earnings of

39.98

cents per share

Core headline earnings of

43.18

cents per share

Group income statement

	Group Reviewed November 2019 R'000		Cell C November 2018 R'000	SPVs November 2018 R'000	Remaining entities November 2018 R'000	Growth remaining entities R'000	Growth remaining entities %
Continuing operations							
Revenue	**11 488 576**	**11 273 841**	–	–	**11 273 841**	214 735	2%
Gross profit	**1 208 302**	**1 098 939**	–	–	**1 098 939**	109 363	10%
EBITDA	**723 221**	**239 014**	–	(492 640)	**731 654**	(8 433)	(1%)
Share of profits/(losses) from associates and joint ventures	**13 040**	**(148 799)**	(133 465)	–	**(15 334)**	28 374	185%
– Cell C	**–**	**(133 465)**	(133 465)	–	**–**	–	
– Oxigen Services India	**–**	**(10 197)**	–	–	**(10 197)**	10 197	100%
– Blue Label Mexico	**(564)**	**(13 002)**	–	–	**(13 002)**	12 438	96%
– United Call Centre Solutions	**11 551**	**13 726**	–	–	**13 726**	(2 175)	(16%)
– Other	**2 053**	**(5 861)**	–	–	**(5 861)**	7 914	135%
Net profit/(loss) from continuing operations	**313 388**	**(201 142)**	(133 465)	(492 640)	**424 963**	(111 575)	(26%)
Core headline earnings	**390 304**	**(128 706)**	(123 056)	(492 640)	**486 990**	(96 686)	(20%)
– from continuing operations	**323 512**	**(202 133)**	(123 056)	(492 640)	**413 563**	(90 051)	(22%)
– from discontinued operations	**66 792**	**73 427**	–	–	**73 427**	(6 635)	(9%)
Gross profit margin	**10.52%**	**9.75%**			**9.75%**		
EBITDA margin	**6.30%**	**2.12%**			**6.49%**		
Weighted average shares ('000)	**903 958**	**925 688**			**925 688**		
EPS (cents)	**34.83**	**(15.11)**			**52.53**	(17.70)	(34%)
HEPS (cents)	**39.98**	**(17.54)**			**49.53**	(9.55)	(19%)
Core HEPS (cents)	**43.18**	**(13.90)**			**52.61**	(9.43)	(18%)

Commentary continued

The financial results of Blue Label Mobile and the handset division of 3G Mobile, totalling R67 million, are disclosed in core headline earnings from discontinued operations and are not included in revenue, gross profit, EBITDA or net profit/(loss) after taxation.

Group revenue generated by the continuing operations within the Group increased by 2% to R11.5 billion. As only the gross profit earned on "PINless top-ups", prepaid electricity, ticketing and gaming are accounted for, on imputing the gross revenue generated thereon, the effective growth in revenue equated to 12% from R27.1 billion to R30.3 billion.

Gross profit increased by 10% from R1.1 billion to R1.2 billion, underpinned by an increase in margins from 9.75% to 10.52%.

The increase in EBITDA was attributable to fair value losses of R493 million relating to SPV1 and SPV2 incurred in the comparative period. On exclusion of this negative contribution, EBITDA declined by R8 million to R723 million, net of the extraneous costs of R41 million incurred in the current period.

The core headline earnings of R390 million comprised R323 million from continuing operations and the R67 million that pertained to the discontinued operations. The composition of the latter is tabled below on a segmental basis:

Discontinued operations

	Africa Reviewed November 2019 R'000	**International Reviewed November 2019 R'000**	**Mobile Reviewed November 2019 R'000**	**Total November 2019 R'000**	Africa Unaudited November 2018 R'000	International Unaudited November 2018 R'000	Mobile Unaudited November 2018 R'000	Total November 2018 R'000
Revenue	**1 241 491**	**18 860**	**109 234**	**1 369 585**	862 270	12 940	121 455	996 665
Gross profit	**154 927**	**16 338**	**88 007**	**259 272**	107 947	11 647	89 458	209 052
EBITDA	**60 186**	**5 442**	**18 935**	**84 563**	68 742	12 889	43 375	125 006
Share of (losses)/profits from associates and joint ventures	**–**	**–**	**(1 363)**	**(1 363)**	–	–	563	563
Core headline earnings	**46 072**	**7 240**	**13 480**	**66 792**	39 547	7 199	26 681	73 427

All suspensive conditions relating to the disposal of 3G Mobile's handset trading operations have been fulfilled and the selling price of R544 million was received on 14 February 2020. In relation to the disposal of Blue Label's interest in Blue Label Mobile, certain conditions precedent remain outstanding, the completion of which is at an advanced stage. Upon fulfilment thereof, R350 million of the selling price of R450 million as well as all monies paid by Blue Label Mobile towards the acquisition of Hyve Mobile Proprietary Limited and Mobile Content Africa Limited amounting to approximately R81 million will be received. The remaining R100 million plus interest thereon will be contingent upon terms of the conditions contained in the circular to shareholders published on 6 November 2019.

The total proceeds of the above disposals will be applied to the reduction of interest-bearing borrowings within the Group by approximately R1 billion. The Group's strategic intent is to "go back to basics" and significantly improve the cash generation of the Group in order to deliver returns to shareholders.

SEGMENTAL REPORT

Africa Distribution

	Africa Reviewed November 2019 R'000	Africa Unaudited November 2018 R'000	Cell C November 2018 R'000	SPVs November 2018 R'000	Remaining entities November 2018 R'000	Growth remaining entities R'000	Growth remaining entities %
Revenue	**11 381 337**	11 168 425	–	–	11 168 425	212 912	2%
Gross profit	**1 174 858**	1 065 513	–	–	1 065 513	109 345	10%
EBITDA	**763 107**	254 525	–	(492 640)	747 165	15 942	2%
Share of profits/(losses) from associates and joint ventures	**2 047**	(139 452)	(133 465)	–	(5 987)	8 034	134%
– Cell C	**–**	(133 465)	(133 465)	–	–		
– Other	**2 047**	(5 987)	–	–	(5 987)	8 034	134%
Net profit/(loss) from continuing operations	**364 229**	(162 101)	(133 465)	(492 640)	464 004	(99 775)	(22%)
Core headline earnings	**419 570**	(124 212)	(123 056)	(492 640)	491 484	(71 914)	(15%)
– from continuing operations	**373 498**	(163 759)	(123 056)	(492 640)	451 937	(78 439)	(17%)
– from discontinued operations	**46 072**	39 547	–	–	39 547	6 525	16%

The financial results of the handset division of 3G Mobile and Airvantage have been classified as discontinued operations and are not included in revenue, gross profit, EBITDA or net profit/(loss) after taxation.

Revenue generated by the continuing operations within the segment increased by 2% from R11.2 billion to R11.4 billion. As only the gross profit earned on "PINless top-ups", prepaid electricity, ticketing and gaming are accounted for, on imputing the gross revenue generated thereon, the effective growth in revenue equated to 12% from R27.0 billion to R30.2 billion.

SA Distribution continues to expand its product and services portfolio to further differentiate ourselves from competitors and ensure we remain a distinctive magnet for foot traffic. We continue to bed down the new operational structure to improve customer services and efficiency. Our dedicated call centre has improved our analysis of trading patterns and refined our targeting leading to further market share gains.

Net commissions earned on the distribution of prepaid electricity amounted to R150 million. Revenue generated on behalf of the utilities increased by 14% from R10.0 billion to R11.4 billion.

We continue to drive penetration into our municipal pre-paid utilities market. We have added to our revenue collection services through the development of a comprehensive revenue assurance product suite which we expect will enhance traction and margins in this market.

Gross profit increased by 10% from R1.07 billion to R1.17 billion, underpinned by an increase in margins from 9.54% to 10.32%.

On exclusion of the fair value losses of R493 million relating to SPV1 and SPV2 incurred in the comparative period, EBITDA increased by R16 million to R763 million.

As at 31 May 2019, the carrying value of Blue Label's investment in Cell C was fully impaired. Consequently, its financial results did not have an impact on Blue Label's earnings for the current reporting period.

The comparative period reflects the negative contribution by Cell C and the fair value losses of the exposure relating to SPV1 and SPV2. On exclusion thereof, core headline earnings amounted to R491 million compared to R419 million in the current period. Of the latter amount, R373 million related to continuing operations and R46 million to discontinued operations.

Of the R72 million decline in core headline earnings, R51 million pertained to extraneous expenditure within the retail division. The remaining R21 million was primarily attributable to additional depreciation in line with an increase in capital expenditure as well as an increase in net finance costs.

Commentary continued

International

	Reviewed November 2019 R'000	Unaudited November 2018 R'000	Growth R'000	Growth %
EBITDA	**372**	11 914	(11 542)	(97%)
Share of losses from associates and joint ventures	**(564)**	(23 199)	22 635	98%
– Oxigen Services India	**–**	(10 197)	10 197	100%
– Blue Label Mexico	**(564)**	(13 002)	12 438	96%
Net profit/(loss) from continuing operations	**42**	(9 061)	9 103	100%
Core headline earnings	**8 137**	(1 195)	9 332	781%
– from continuing operations	**897**	(8 394)	9 291	111%
– from discontinued operations	**7 240**	7 199	41	1%

The financial results of AV Technology and Airvantage Brazil have been classified as discontinued operations.

The decline in EBITDA of R11.5 million was primarily attributable to negative foreign exchange movements relating to loans provided to Oxigen Services India and 2DFine Holdings Mauritius, accounted for in the comparative period. As these loans were fully impaired as at 31 May 2019, no further income in this regard was accounted for in the current reporting period.

As at 31 May 2019, the carrying value of Blue Label's investment in the Oxigen India Group was fully impaired. Consequently, its financial results did not have an impact on Blue Label's earnings for the current reporting period.

Blue Label Mexico generated a profit of R0.6 million, of which the Group's share amounted to a loss of R0.6 million after the amortisation of intangible assets. In the comparative period it incurred losses of R25 million, of which the Group's share amounted to R13 million.

The positive turnaround was attributable to various initiatives that were implemented in the last quarter of the previous financial year which perpetuated in the current period.

Although its revenue declined by R130 million (7%) from R1.81 billion to R1.68 billion, gross profit increased by R3 million (5%), underpinned by an increase in gross profit margins from 4.04% to 4.55%.

Operational expenditure declined by 16%, through the implementation of significant cost saving initiatives. The resultant EBITDA increased by R17 million from a negative R9 million to a positive R8 million.

Depreciation declined by R9 million (48%), primarily attributable to the expiry of the tenure of certain POS terminals.

The resultant contributions by the International segment to Group core headline earnings amounted to R8 million, of which continuing operations accounted for R1 million and discontinued operations for R7 million.

Solutions

This segment comprises Datacel, Blue Label Data Solutions (BLDS), the data aggregation and lead generation entity in which the Group owns 81%, and a 50% joint venture shareholding owned by BLDS in United Call Centre Solutions, an outbound call centre operation.

Solutions continued

	Reviewed November 2019 R'000	Unaudited November 2018 R'000	Growth R'000	Growth %
Revenue	**107 239**	105 416	1 823	2%
Gross profit	**33 444**	33 425	19	0%
EBITDA	**23 855**	21 980	1 875	9%
Share of profits from associates and joint ventures	**11 557**	13 852	(2 295)	(17%)
Net profit from continuing operations	**23 199**	25 159	(1 960)	(8%)
Core headline earnings	**23 199**	25 159	(1 960)	(8%)
– from continuing operations	**23 199**	25 159	(1 960)	(8%)
– from discontinued operations	**–**	–	–	

The growth in revenue of 2% to R107 million was attributable to increased demand for aggregated data and lead generations. A marginal decline in gross profit margins from 31.71% to 31.19% resulted in a nominal movement in gross profit. After an overhead decline of 12%, EBITDA increased by R2 million (9%) to R24 million. This segment prides itself on its adherence to compliance with the POPI and CPA Acts.

Of the core headline earnings of R23 million, BLDS accounted for R13.7 million. United Call Centre Solutions generated earnings of R23.1 million, of which BLDS' share amounted to R11.6 million. After accounting for a minority shareholding of 19%, the Group's share thereof amounted to R9.4 million.

Corporate

	Reviewed November 2019 R'000	Unaudited November 2018 R'000	Growth R'000	Growth %
EBITDA	**(64 114)**	(49 405)	(14 709)	(30%)
Net loss from continuing operations	**(74 082)**	(55 139)	(18 943)	(34%)
Core headline earnings	**(74 082)**	(55 139)	(18 943)	(34%)
– from continuing operations	**(74 082)**	(55 139)	(18 943)	(34%)
– from discontinued operations	**–**	–	–	

Core headline losses increased by R19 million, attributable to an increase of R21 million relating to the put-option liability for the acquisition of the remaining 40% minority share of Airvantage and AV Technology and R10 million to negative foreign exchange movements. These negative movements were offset by a loan impairment of R13 million pertaining to 2DFine Holdings Mauritius emanating from a fair value adjustment in the Oxigen group in the comparative period.

Commentary continued

Depreciation and amortisation

Depreciation, amortisation and impairment charges increased by R38 million to R118 million. Of this increase, R14 million pertained to depreciation on additional capital expenditure incurred during the period, impairments of R3 million and R1 million relating to the amortisation of intangible assets. A further increase of R21 million was due to depreciation raised in terms of IFRS 16 – *Leases*. In terms of this statement, leases that were previously recognised as operating leases under IAS 17 are accounted for in line with the requirements of IFRS 16. A right-of-use asset has been raised equivalent to these finance lease liabilities and amortised over the remaining lease term. This has given rise to a depreciation charge that previously would have been included in other expenses as part of the lease rental expense.

Net finance costs

Finance costs totalled R121 million, relating to interest paid on borrowed funds. On a comparative basis, interest paid on borrowed funds amounted to R109 million and the imputed IFRS interest adjustment equated to R7 million.

The increase of R12 million was attributable to additional borrowings utilised from existing facilities.

Finance income totalled R36 million, of which R35 million was for interest received on cash resources and R1 million for imputed IFRS interest adjustments on credit afforded to customers. In the prior year, interest received on cash resources amounted to R70 million and the imputed IFRS interest adjustment to R1 million.

Statement of financial position

Total assets increased by R0.7 billion to R12.8 billion of which non-current assets accounted for a decrease of R724 million, current assets a decrease of R299 million, offset by an increase in assets classified as held-for-sale of R1.8 billion relating to the reclassification of the assets of Blue Label Mobile and the handset division of 3G Mobile in line with the contemplated disposals thereof.

Non-current assets included decreases in investments in and loans to associates and joint ventures of R22 million, advances to customers of R52 million, intangible assets and goodwill of R0.8 billion, and in other receivables of R13 million. These decreases were offset by increases in capital expenditure net of depreciation of R5 million, in financial asset at fair value through profit or loss of R29 million and right-of-use assets of R123 million.

The net decrease of R22 million in investments in and loans to associates and joint ventures comprised the Group's net share of profits totalling R12 million, offset by loan repayments by associates of R9.3 million, reclassification to assets held-for-sale amounting to R18 million, dividends received of R4.6 million and other movements amounting to R2.1 million.

Of the net decrease in intangible assets and goodwill of R0.8 billion, R53 million related to the write down to fair value less cost to sell for the disposal of the handset division of 3G Mobile and Blue Label Mobile as well as R638 million reclassified to asset held-for-sale with regard to the above. Amortisation of intangibles amounted to R101 million and disposals to R22 million. These decreases were offset by additional intangible assets of R22 million.

The material net decline in current assets included decreases in inventory of R474 million and trade and other receivables of R266 million, offset by increases in cash and cash equivalents of R255 million and advances to customers of R210 million.

The stock turn equated to 20 days compared to 24 days for the financial year ended 31 May 2019.

The debtor's collection period increased to 78 days compared to 68 days for the financial year ended 31 May 2019.

Net profit attributable to equity holders amounted to R315 million, contributing to accumulated capital and reserves of R2.84 billion.

Net borrowings increased by R409 million, in which The Prepaid Company Proprietary Limited (The Prepaid Company) utilised an additional R634 million of its bank facilities, offset by a reduction in Comm Equipment Company's interest-bearing debt by R199 million.

Liabilities classified as held-for-sale amounted to R676 million, relating to the reclassification of the liabilities of Blue Label Mobile and the handset division of 3G Mobile in line with the contemplated disposals thereof.

Trade and other payables decreased by R692 million, with average credit terms equating to 78 days compared to 83 days for the financial year ended 31 May 2019.

Statement of cash flows

Cash generated from trading operations totalled R390 million. Working capital movements comprised an increase in trade receivables of R711 million and a decrease in trade payables of R61 million, offset by a decrease in inventory of R304 million. After incurring net finance costs and taxation, net cash generated amounted to R110 million.

Although inventory holdings declined, the remaining balance of R1.04 billion is a highly liquid asset, capable of significant reduction within any given month.

Net cash flows utilised in investing activities amounted to R49 million, mainly attributable to the purchase of intangible assets of R17 million and R72 million on capital expenditure, offset by loans repaid of R31 million.

Cash flows from financing activities amounted to R376 million, of which R422 million related to additional borrowings, R34 million from the dilution of shares in a subsidiary, offset by a dividend payment of R58 million to non-controlling interests and lease payments of R23 million.

Cash on hand accumulated to R1.8 billion.

Forfeitable share scheme

Forfeitable shares totalling 18 405 894 (2019: 6 387 930) were issued to qualifying employees. During the period 919 706 (2018: 224 545) shares were forfeited and 490 649 (2018: 2 245 445) shares vested.

Subsequent events

Agreements for the disposal of Blue Label's interests in Blue Label Mobile and the handset division of 3G Mobile were entered into on 25 September 2019 and approved by Blue Label shareholders on 4 December 2019.

With regard to the disposal of 3G Mobile's trading operations all suspensive conditions have been fulfilled and the purchase price of R544 million was received on 14 February 2020.

In relation to the disposal of Blue Label Mobile, certain conditions precedent remain outstanding, the completion of which is at an advanced stage. Upon fulfilment thereof, R350 million of the selling price of R450 million as well as all monies paid by Blue Label Mobile towards the acquisition of Hyve Mobile Proprietary Limited and Mobile Content Africa Limited amounting to approximately R81 million will be received. The remaining R100 million plus interest thereon is contingent on the terms of the conditions contained in the circular to shareholders published on 6 November 2019.

As at the date of publication of the 31 May 2019 financial statements, The Prepaid Company's Investec banking facilities had been extended to 29 November 2019. On 29 November 2019, these banking facilities totalling R2.176 billion were successfully renewed, of which R1.5 billion was extended for a period of 12 months and R676 million for nine months. Of the latter amount, R131 million has been paid to date, with the remaining balance of R545 million to be repaid by 31 August 2020.

In February 2020, The Prepaid Company renegotiated a further extension of the R1.5 billion facility to 31 March 2021, at which date the exposure to Investec is required to be no more than R1 billion.

As at 30 November 2019 the Investec facilities were disclosed as current borrowings amounting to R2.1 billion, as the extension to 31 March 2021 was only granted in February 2020.

The Board of Directors have evaluated the going concern assumption as at 30 November 2019 and considered it to be appropriate in the preparation of these interim financial statements.

Independent review

These condensed Group financial statements for the half-year ended 30 November 2019 have been reviewed by PricewaterhouseCoopers Inc.

A copy of the auditor's unmodified review report on the condensed Group financial statements is available for inspection at the Company's registered office, together with the condensed Group financial statements identified in the respective auditor's reports.

Strategic focus

The Group remains committed to its back-to-basics approach in order to ensure the reduction of debt and improved cash generation. Traditional airtime and data remain the Group's majority contributors. A determined focus on enhancing our non-telco product portfolio and electricity capability now sees these business lines contributing 43% of the Group's gross profit. We will continue to develop our technology stack together with new products to drive future growth.

Appreciation

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

For and on behalf of the Board

LM Nestadt
Chairman

BM Levy and MS Levy
Joint Chief Executive Officers

DA Suntup* CA(SA)
Financial Director

27 February 2020

* *Supervised the preparation of the reviewed condensed Group interim results.*

Condensed Group statement of financial position

As at	Note	30 November 2019 Reviewed R'000	31 May 2019 Audited R'000
ASSETS			
Non-current assets		**2 752 176**	3 477 070
Property, plant and equipment		**242 859**	237 657
Right-of-use asset	8	**122 318**	–
Intangible assets		**585 333**	1 083 328
Goodwill		**939 772**	1 234 995
Investments in and loans to associates and joint ventures		**196 644**	218 842
Loans receivable		**40 293**	41 760
Advances to customers		**532 182**	584 440
Financial assets at fair value through profit or loss	6	**28 750**	–
Deferred taxation assets		**64 025**	76 048
Current assets		**8 305 332**	8 604 302
Inventories		**1 041 121**	1 514 649
Loans receivable		**162 177**	190 769
Trade and other receivables		**3 992 289**	4 257 266
Advances to customers		**1 242 627**	1 032 657
Financial assets at fair value through profit or loss	6	**203 648**	204 739
Current tax assets		**22 786**	18 626
Cash and cash equivalents		**1 640 684**	1 385 596
Assets classified as held-for-sale	7	**1 766 610**	–
Total assets		**12 824 118**	12 081 372
EQUITY AND LIABILITIES			
Capital and reserves		**2 841 490**	2 491 562
Issued share capital and premium		**7 609 196**	7 599 016
Other reserves		**(2 811 154)**	(2 824 740)
Retained earnings		**(2 090 192)**	(2 405 031)
Total ordinary shareholders' equity		**2 707 850**	2 369 245
Non-controlling interest		**133 640**	122 317
Non-current liabilities		**1 854 088**	1 951 920
Deferred taxation liabilities		**118 324**	236 400
Borrowings		**1 496 715**	1 715 520
Lease liability	8	**95 609**	–
Financial guarantee contracts	5	**104 950**	–
Financial liabilities at fair value through profit or loss	6	**38 490**	–
Current liabilities		**7 452 959**	7 637 890
Trade and other payables		**4 679 431**	5 371 386
Lease liability	8	**35 028**	–
Financial guarantee contracts	5	**81 451**	243 492
Provisions		**23 424**	24 947
Financial liabilities at fair value through profit or loss	6	**462 790**	460 354
Current tax liabilities		**22 075**	9 104
Borrowings		**2 148 760**	1 520 764
Bank overdraft		**–**	7 843
Liabilities directly associated with assets classified as held-for-sale	7	**675 581**	–
Total equity and liabilities		**12 824 118**	12 081 372

Condensed Group statement of comprehensive income

For the six months ended	Note	30 November 2019 Reviewed R'000	30 November 2018 Unaudited Restated* R'000
Continuing operations			
Revenue	4	**11 488 576**	11 273 841
Other income		**27 985**	73 454
Changes in inventories of finished goods		**(10 197 098)**	(10 086 215)
Finance costs incurred in the generation of revenue		**(83 176)**	(88 687)
Employee compensation and benefit expense		**(248 066)**	(242 944)
Depreciation and amortisation		**(118 122)**	(79 859)
Impairments and fair value losses		**(23 731)**	(485 624)
Other expenses		**(241 269)**	(204 811)
Operating profit		**605 099**	159 155
Finance costs		**(121 347)**	(116 506)
Finance income		**36 311**	71 494
Share of profits/(losses) from associates and joint ventures		**13 040**	(148 799)
Profit/(loss) before taxation		**533 103**	(34 656)
Taxation		**(179 382)**	(157 621)
Profit/(loss) from continuing operations for the period		**353 721**	(192 277)
Profit from discontinued operations		**15 961**	71 370
Profit/(loss) for the period		**369 682**	(120 907)
Other comprehensive (loss)/income:			
Items reclassified to profit or loss			
Foreign currency translation reserve reclassified to profit or loss		**–**	(143)
Items that may be subsequently reclassified to profit or loss			
Share of other comprehensive (loss)/income of associates and joint ventures		**(221)**	14 114
Foreign exchange (loss)/profit on translation of foreign operations		**(2 664)**	3 058
Other comprehensive (loss)/income for the period, net of tax		**(2 885)**	17 029
Total comprehensive income/(loss) for the period		**366 797**	(103 878)
Profit/(loss) for the period attributable to:		**369 682**	(120 907)
Equity holders of the parent		**314 839**	(139 844)
Non-controlling interest		**54 843**	18 937
Profit/(loss) for the period attributable to equity holders of the parent arises from:		**314 839**	(139 844)
Continuing operations		**313 388**	(201 142)
Discontinued operations	7	**1 451**	61 298
Total comprehensive income/(loss) for the period attributable to:		**366 797**	(103 878)
Equity holders of the parent		**312 467**	(122 520)
Non-controlling interest		**54 330**	18 642
Total comprehensive income/(loss) for the period attributable to equity holders of the parent arises from:		**312 467**	(122 520)
Continuing operations		**310 756**	(190 599)
Discontinued operations	7	**1 711**	68 079
Earnings per share	2	**34.83**	(15.11)
Continuing operations		**34.67**	(21.73)
Discontinued operations		**0.16**	6.62
Diluted earnings per share	2	**34.35**	▲
Continuing operations		**34.35**	▲
Discontinued operations		**▲**	▲

* *As a result of non-current assets held-for-sale and discontinued operations and the prior year error, the Group has restated their comparative financial information. Refer to notes 7 and 9 for details.*

▲ *There were no dilutive instruments.*

Condensed Group statement of changes in equity

	Issued share capital and premium Audited R'000	Retained earnings Audited R'000
Balance as at 1 June 2018	7 844 847	4 241 352
Loss for the year	–	(6 646 383)
Other comprehensive income	–	–
Total comprehensive (loss)/income	–	(6 646 383)
Treasury shares purchased	(42 378)	–
Shares repurchased	(224 006)	–
Equity compensation benefit scheme shares vested	20 553	–
Equity compensation benefit movement	–	–
Transaction with non-controlling interest reserve movement*	–	–
Non-controlling interest acquired	–	–
Non-controlling interest disposed of	–	–
Dividends paid	–	–
Balance as at 31 May 2019	7 599 016	(2 405 031)

* *The majority of this amount relates to the put option on the acquisition of Airvantage Technology.*

	Issued share capital and premium Reviewed R'000	**Retained earnings Reviewed R'000**
Balance as at 1 June 2019	**7 599 016**	**(2 405 031)**
Profit for the period	**–**	**314 839**
Other comprehensive loss	**–**	**–**
Total comprehensive income	**–**	**314 839**
Equity compensation benefit scheme shares vested	**10 180**	**–**
Equity compensation benefit movement	**–**	**–**
Transaction with non-controlling interest reserve movement**	**–**	**–**
Non-controlling interest acquired **	**–**	**–**
Dividends paid	**–**	**–**
Balance as at 30 November 2019	**7 609 196**	**(2 090 192)**

** *The movement relating to the transaction with minority reserve and the non-controlling interest acquired both relate to the Blue Label Mobile restructure. For details of this transaction refer to the integrated annual report for 31 May 2019 (note 9.2).*

	Other reserves Audited R'000	Total ordinary shareholders' equity Audited R'000	Non-controlling interest Audited R'000	Total equity Audited R'000
	(2 814 202)	9 271 997	155 480	9 427 477
	–	(6 646 383)	24 187	(6 622 196)
	63 905	63 905	3 066	66 971
	63 905	(6 582 478)	27 253	(6 555 225)
	–	(42 378)	–	(42 378)
	–	(224 006)	–	(224 006)
	(19 915)	638	(638)	–
	7 149	7 149	577	7 726
	(61 677)	(61 677)	–	(61 677)
	–	–	(25 904)	(25 904)
	–	–	1 099	1 099
	–	–	(35 550)	(35 550)
	(2 824 740)	2 369 245	122 317	2 491 562

	Other reserves Reviewed R'000	**Total ordinary shareholders' equity Reviewed R'000**	**Non-controlling interest Reviewed R'000**	**Total equity Reviewed R'000**
	(2 824 740)	**2 369 245**	**122 317**	**2 491 562**
	–	**314 839**	**54 843**	**369 682**
	(2 372)	**(2 372)**	**(513)**	**(2 885)**
	(2 372)	**312 467**	**54 330**	**366 797**
	(9 841)	**339**	**(339)**	**–**
	12 565	**12 565**	**550**	**13 115**
	13 234	**13 234**	**–**	**13 234**
	–	**–**	**21 201**	**21 201**
	–	**–**	**(64 419)**	**(64 419)**
	(2 811 154)	**2 707 850**	**133 640**	**2 841 490**

Condensed Group statement of cash flows

For the six months ended	30 November 2019 Reviewed R'000	30 November 2018 Unaudited R'000
Cash flows from operating activities		
Cash generated by/(utilised in) operations	**390 152**	(950 899)
Interest received	**37 585**	64 102
Interest paid	**(113 551)**	(118 819)
Taxation paid	**(204 085)**	(187 617)
Net cash generated from/(utilised in) operating activities	**110 101**	(1 193 233)
Cash flows from investing activities		
Acquisition of intangible assets and property, plant and equipment	**(89 061)**	(111 514)
Acquisition of subsidiaries net of cash acquired	**–**	(7 162)
Liquidity support granted*	**–**	(53 229)
Loans repaid by Cell C	**–**	1 029 626
Loans repaid/(granted)	**21 826**	(7 163)
Loans repaid/(granted) to associates and joint ventures	**9 264**	(7 485)
Settlement of contingent consideration	**–**	(2 614)
Other investing activities	**8 725**	6 191
Net cash (utilised in)/ generated from investing activities	**(49 246)**	846 650
Cash flows from financing activities		
Proceeds from dilution of shares in subsidiary**	**34 435**	–
Borrowings raised	**422 072**	632 603
Acquisition of treasury shares	**–**	(42 394)
Share buy back***	**–**	(224 006)
Principal element of lease payments	**(22 929)**	–
Dividends paid to non-controlling interest	**(57 977)**	(28 553)
Net cash generated from financing activities	**375 601**	337 650
Net increase/(decrease) in cash and cash equivalents	**436 456**	(8 933)
Cash and cash equivalents at the beginning of the period	**1 377 753**	947 888
Exchange gains on cash and cash equivalents	**1 160**	693
Cash and cash equivalents at the end of the period	**1 815 369**	939 648
Included in cash and cash equivalents per the statement of financial position	**1 640 684**	939 648
Included in the assets of the disposal group	**174 685**	–
	1 815 369	939 648

* *This relates to the liquidity support given to SPV2.*

** *This relates to Malik Investment Holdings Proprietary Limited's subscription for a further 4.51% in Blue Label Mobile Holdings Proprietary Limited. Refer to note 9.2 of the Group annual financial statements for the year ended 31 May 2019.*

*** *Approximately 32.9 million shares were repurchased over the period 22 August 2018 to 21 September 2018 at a weighted average price of R6.78 per share.*

Notes to the reviewed condensed Group results

1. Headline earnings

For the six months ended	Continuing operations 30 November 2019 Reviewed R'000	Continuing operations 30 November 2018 Unaudited Restated* R'000	Discontinued operations 30 November 2019 Reviewed R'000	Discontinued operations 30 November 2018 Unaudited Restated** R'000
Profit/(loss) attributable to equity holders of the parent	**313 388**	(201 142)	**1 451**	61 298
Net profit on disposal of property, plant and equipment	**(8 349)**	(238)	**(584)**	(16)
Foreign currency translation reserve recycled to profit or loss	**–**	(143)	**–**	–
Fair value uplift on conversion from associate to subsidiary	**–**	(27 741)	**–**	–
Impairment of property, plant and equipment	**2 322**	397	**–**	–
Write down to fair value less cost to sell of disposal groups	**–**	–	**53 232**	–
Loss on disposal of property, plant and equipment in associate	**–**	466	**–**	–
Impairment of intangible assets in associate	**–**	4 755	**–**	–
Headline earnings	**307 361**	(223 646)	**54 099**	61 282
Headline earnings per share	**34.00**	(24.16)	**5.98**	6.62

* *As a result of the prior year error the Group has restated their comparative financial information.*

** *As a result of non-current assets held-for-sale and discontinued operations, the Group has restated their comparative financial information.*

Notes to the reviewed condensed Group results continued

2. Share performance

For the six months ended	Note	Continuing operations 30 November 2019 Reviewed R'000	30 November 2018 Unaudited Restated** R'000	30 November 2019 Reviewed R'000	30 November 2018 Unaudited Restated** R'000
Headline earnings per share	1	**Attributable earnings**	**Attributable earnings**	**Cents per share**	**Cents per share**
Basic		**307 361**	(223 646)	**34.00**	(24.16)
Diluted		**307 361**	*	**33.69**	*
Core		**323 512**	(202 133)	**35.79**	(21.84)
Earnings attributable to ordinary equity holders					
Basic		**313 388**	(201 142)	**34.67**	(21.73)
Diluted		**313 388**	*	**34.35**	*
Weighted average number of shares					
Weighted average number of ordinary shares		**903 957 640**	925 687 772		
Adjusted for forfeitable shares		**8 485 122**	5 457 096		
Weighted average number of ordinary shares for diluted earnings		**912 442 762**	931 144 868		
Number of shares in issue		**913 655 873**	913 655 873		
Number of shares in issue excluding treasury shares		**892 205 135**	904 201 467		
Reconciliation between profit/(loss) and core headline earnings for the period:					
Profit/(loss) for the period attributable to equity holders of the parent		**313 388**	(201 142)		
Amortisation on intangible assets raised through business combinations net of tax and net of non-controlling interest		**16 151**	21 513		
Core profit/(loss) for the period		**329 539**	(179 629)		
Headline earnings adjustments		**(6 027)**	(22 504)		
Core headline earnings		**323 512**	(202 133)		
Core headline earnings per share (cents)		**35.79**	(21.84)		

* *There were no dilutive instruments.*

** *As a result of non-current assets held-for-sale and discontinued operations and the prior year error, the Group has restated their comparative financial information.*

	Discontinued operations			
	30 November 2019 Reviewed R'000	30 November 2018 Unaudited Restated** R'000	**30 November 2019 Reviewed R'000**	30 November 2018 Unaudited Restated** R'000
	Attributable earnings	**Attributable earnings**	**Cents per share**	**Cents per share**
	54 098	61 282	**5.98**	6.62
	*****	*	*****	*
	66 792	73 427	**7.39**	7.94
	1 451	61 298	**0.16**	6.62
	*****	*	*****	*
	903 957 640	925 687 772		
	8 485 122	5 457 096		
	912 442 762	931 144 868		
	913 655 873	913 655 873		
	892 205 135	904 201 467		
	1 451	61 298		
	12 693	12 145		
	14 144	73 443		
	52 648	(16)		
	66 792	73 427		
	7.39	7.93		

Notes to the reviewed condensed Group results continued

3. Segmental summary

Six months ended 30 November 2019	Total Reviewed R'000	Africa Distribution Reviewed R'000	International Reviewed R'000
Total segment revenue	**16 741 443**	**16 220 892**	**–**
Internal revenue	**(5 252 867)**	**(4 839 555)**	**–**
Revenue	**11 488 576**	**11 381 337**	**–**
Operating profit/(loss) before depreciation, amortisation, impairments and fair value adjustments	**746 952**	**777 507**	**(2 868)**
Profit/(loss) from continuing operations for the period attributable to equity holders of the parent	**313 388**	**364 229**	**42**
Profit/(loss) for the period from discontinued operations attributable to equity holders of the parent	**1 451**	**2 249**	**(2 615)**
Profit/(loss) for the period attributable to equity holders of the parent	**314 839**	**366 478**	**(2 573)**
Amortisation on intangibles raised through business combinations net of tax and non-controlling interest	**28 844**	**23 862**	**4 042**
Headline earnings adjustments net of non-controlling interest	**46 621**	**29 230**	**6 668**
Core headline earnings for the period attributable to equity holders of the parent	**390 304**	**419 570**	**8 137**

Entities classified as held-for-sale fall within the Africa, International and Mobile segments. The remaining entities fall within all segments other than the Mobile segment and as such this segment will cease to exist on conclusion of the disposals referred to in note 7.

Six months ended 30 November 2018	Total Unaudited R'000	Africa Distribution Unaudited R'000	International Unaudited R'000
Total segment revenue	15 943 573	15 730 414	–
Internal revenue	(4 669 732)	(4 561 989)	–
Revenue	11 273 841	11 168 425	–
Operating profit/(loss) before depreciation, amortisation, impairments and fair value adjustments	724 638	722 717	14 576
Profit/(loss) from continuing operations for the period attributable to equity holders of the parent	(201 142)	(162 101)	(9 061)
Profit/(loss) for the period from discontinued operations attributable to equity holders of the parent	61 298	30 115	5 321
Profit/(loss) for the period attributable to equity holders of the parent	(139 844)	(131 986)	(3 740)
Amortisation on intangibles raised through business combinations net of tax and non-controlling interest	33 658	30 140	2 688
Headline earnings adjustments net of non-controlling interest	(22 520)	(22 366)	(143)
Core headline earnings for the period attributable to equity holders of the parent	(128 706)	(124 212)	(1 195)

	Mobile Reviewed R'000	Solutions Reviewed R'000	Corporate Reviewed R'000
	–	**108 779**	**411 772**
	–	**(1 540)**	**(411 772)**
	–	**107 239**	**–**
	–	**23 805**	**(51 492)**
	–	**23 199**	**(74 082)**
	1 817	**–**	**–**
	1 817	**23 199**	**(74 082)**
	940	**–**	**–**
	10 723	**–**	**–**
	13 480	**23 199**	**(74 082)**

	Mobile Unaudited R'000	Solutions Unaudited R'000	Corporate Unaudited R'000
	–	106 326	106 833
	–	(910)	(106 833)
	–	105 416	–
	–	22 544	(35 199)
	–	25 159	(55 139)
	25 862	–	–
	25 862	25 159	(55 139)
	830	–	–
	(11)	–	–
	26 681	25 159	(55 139)

Notes to the reviewed condensed Group results continued

4. Revenue

For the six months ended	Total 30 November 2019 Reviewed R'000	Total 30 November 2018 Unaudited Restated* R'000	Africa Distribution 30 November 2019 Reviewed R'000	Africa Distribution 30 November 2018 Unaudited Restated* R'000	Solutions 30 November 2019 Reviewed R'000	Solutions 30 November 2018 Unaudited R'000
Revenue from contracts with customers	**11 289 763**	11 070 250	**11 182 524**	10 964 834	**107 239**	105 416
Prepaid airtime, data and related revenue	**10 104 200**	9 651 182	**10 104 200**	9 651 182	**–**	–
Postpaid airtime, data and related revenue	**65 105**	78 187	**65 105**	78 187	**–**	–
Prepaid and postpaid SIM cards	**353 113**	603 092	**353 113**	603 092	**–**	–
Services	**231 843**	180 398	**124 604**	74 982	**107 239**	105 416
Electricity commission	**187 332**	190 470	**187 332**	190 470	**–**	–
Handsets, tablets and other devices	**200 167**	273 682	**200 167**	273 682	**–**	–
Other revenue	**148 003**	93 239	**148 003**	93 239	**–**	–
Finance revenue	**198 813**	203 591	**198 813**	203 591	**–**	–
	11 488 576	11 273 841	**11 381 337**	11 168 425	**107 239**	105 416

* *Revenue-generating entities that were previously disclosed within the Mobile and International segments are accounted for as discontinued operations and are therefore not included in current or prior period revenue per the condensed Group statement of comprehensive income. The Group has restated its comparative financial information. Refer to note 7.*

5. Financial guarantee contracts

Financial guarantee contracts are recognised at fair value, on the date that the Group becomes a party to an irrevocable commitment. Financial guarantee contracts are subsequently stated at the higher of the amount of the expected credit loss (ECL) allowance and the amount initially recognised. Any difference between the redemption value guarantee obligation and the amount paid is recognised in the income statement.

A portion of the financial guarantee contract obligation to RBL Bank was called upon in the current period.

	30 November 2019 Reviewed R'000	31 May 2019 Audited R'000
Opening balance	**243 492**	–
Adjustment on the initial application of IFRS 9	**–**	19 029
Foreign exchange movement	**(4 236)**	–
Additional liability raised during the year through profit or loss	**–**	62 132
Additional liability raised during the year through investment in joint venture	**–**	40 631
Acquisition of subsidiaries	**–**	125 000
Utilised during the year	**(44 190)**	–
Amounts released through profit or loss	**(8 665)**	(3 300)
Closing carrying amount	**186 401**	243 492
Less: Amounts included in non-current portion of financial guarantee contracts	**(104 950)**	–
	81 451	243 492

Included in the closing balance above is a guarantee to the value of R73.2 million (2019: R121.6 million) which has been issued in favour of RBL Bank. During the period, R44.2 million was called upon by RBL Bank and settled. The guarantee called upon was related to the cash-backed portion of this liability at 31 May 2019. Should the remaining guarantees be called upon, the Group will be required to settle these amounts within seven days. An amount of R113.2 million (2019: R121.7 million) is owed to Investec Limited by Glocell Proprietary Limited, and has been guaranteed by Glocell Distribution Proprietary Limited should the former not be able to meet its obligations.

Notes to the reviewed condensed Group results continued

5. Financial guarantee contracts continued

Financial guarantee in respect of Cell C's facility

On 2 August 2018, Cell C procured R1.4 billion of funding from a consortium of financial institutions for a tenure of 12 months, secured by airtime to the value of R1.75 billion. In the event of default, The Prepaid Company could be required by the consortium to purchase such inventory from the consortium on a piecemeal basis over a specified period that has been agreed upon. These purchases would be made in lieu of purchases that would have been made from Cell C within that period.

As reported at 31 May 2019, the above funding had declined from R1.4 billion to R1.25 billion as a result of BLT purchasing from the security airtime. At that stage, the financial institutions had agreed to extend the repayment date to 30 November 2019. Per the aforementioned extension, if Cell C was unable to meet this commitment by that date, and no further extension was granted, BLT would be required to purchase R100 million of security airtime in November 2019 and R300 million per month in December 2019, January 2020 and February 2020 respectively. As at 30 November 2019, the above funding had declined to R1.04 billion as a result of BLT purchasing from the security airtime. Prior to 30 November 2019, the consortium elected not to enforce their rights to require Cell C and The Prepaid Company to purchase the inventory from the consortium and such election was in effect until 31 December 2019. Further discussions are in progress with the consortium to further extend the payment date and amend the terms of the airtime purchase by BLT.

It is the intention of The Prepaid Company to accelerate payments to the banking consortium in order to distribute the vault stock in full if there is risk/indication that Cell C will not be able to meet its obligations to the banking consortium in terms of the agreement currently being negotiated. The fair value of the financial guarantee issued in respect of Cell C's facility was valued to be insignificant taking into account the inventory held as collateral.

Critical accounting judgements and assumptions

Financial guarantee

As explained above under the heading "financial guarantee in respect of Cell C's facility", management is of the view that the purchasing of such inventory will not result in an onerous contract as this inventory is capable of being realised in the ordinary course of business without any negative impact being incurred by The Prepaid Company.

6. Financial instruments

Financial instruments at fair value through profit or loss are classified as level 3 instruments in the fair value hierarchy. Changes in level 3 instruments are as follows:

	Bond notes (SPV1) R'000	Liquidity support (SPV2) R'000	Loans at fair value R'000	Other assets R'000	Other liabilities R'000	Put option liability R'000	Total R'000
Opening balance as at 1 June 2019	–	(301 716)	202 267	2 472	–	(158 638)	
Reclassification to non-current assets held-for-sale and discontinued operations (refer to note 7)	–	–	–	(349)	–	–	
Additions	–	–	–	29 851	(38 490)	–	
Disposals	–	–	–	(1 843)	–		
Fair value gain/(loss) recognised in profit or loss	–	8 914	–	–	–	(11 350)	
Closing balance as at 30 November 2019	–	(292 802)	202 267	30 131	(38 490)	(169 988)	
Financial assets at fair value through profit or loss	–	–	202 267	30 131	–	–	232 398
Non-current	–	–	–	28 750	–	–	28 750
Current	–	–	202 267	1 381	–	–	203 648
Financial liabilities at fair value through profit or loss	–	(292 802)	–	–	(38 490)	(169 988)	(501 280)
Non-current	–	–	–		(38 490)	–	(38 490)
Current	–	(292 802)	–	–	–	(169 988)	(462 790)

6. Financial instruments continued

Bond notes and liquidity support

With effect from 2 August 2017, The Prepaid Company purchased bond notes, issued by Cedar Cellular Investments 1 Proprietary Limited (SPV1), from Saudi Oger Limited with a capital redemption value of USD42 million and with a coupon rate of 8.625% per annum for a purchase consideration of USD18 million. The Prepaid Company was entitled to assign its rights and obligations, in whole or in part, to a nominee. Accordingly, it has assigned such rights and obligations in respect of 50% of the bond notes, resulting in an effective purchase consideration of USD9 million with a capital redemption value of USD21 million.

As part of the restructure of the debt into Cell C by third-party lenders, The Prepaid Company will be required to provide liquidity support to Magnolia Cellular Investment 2 (RF) Proprietary Limited (SPV2), which is 100% held by 3C Telecommunications Proprietary Limited, of up to USD80 million, which liquidity support will be provided and will be in the form of subordinated funding to SPV2. Oger Telecoms contributed USD36 million of the aforesaid USD80 million thus reducing The Prepaid Company's obligation in this regard to a maximum of USD44 million. As at 30 November 2019, the Group had contributed USD24 million to SPV2 towards the latter amount.

Fair value estimate

SPV1 and SPV2 own 11.8% and 16% of the shares issued by Cell C Limited respectively. No other assets are held by these entities, and as such the Group's bond note and liquidity support arrangements will be settled only when the value of the Cell C shares are realised by SPV1 and SPV2. The substance of these arrangements are therefore derivatives exposing the Group to the share price of Cell C.

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

The derivatives are not traded in an active market and therefore the fair value is determined by the use of a valuation technique. The valuation was performed using a binomial model taking into account the value of Cell C Limited. As both arrangements are USD denominated, the model accounts for the forward rate of the USD at the expected listing date.

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

As at 30 November 2019, a qualified independent third-party specialist attributed no value to Cell C Limited. As a result, the value of SPV1 remains zero, and the fair value movement in SPV2 relates to a change in the exchange rate.

Loans at fair value

The Prepaid Company acquired a 48% share in Glocell Distribution Proprietary Limited (Glocell Distribution) on 30 June 2018.

In terms of an agreement entered into between The Prepaid Company and Glocell Proprietary Limited (Glocell) during the year ended 31 May 2019, Glocell pledged its 40% shareholding in Glocell Distribution to The Prepaid Company in the event of Glocell defaulting on amounts owing of R343 million to The Prepaid Company. The right to enforce this pledge is currently not exercisable. The right only becomes exercisable once Glocell has settled its outstanding debt of R113 million to Investec Bank Limited.

Glocell's ability to repay The Prepaid Company the amounts owing to it is dependent on the extent of dividends receivable from Glocell Distribution on a piecemeal basis. The contractual terms of the loan have no fixed repayment dates, and in the event that the loan defaults, the only recourse the Group has is to the shares of Glocell Distribution held by Glocell. As such the Group is of the view that the instrument does not meet the requirements to be measured at amortised cost, and therefore this instrument has been reclassified from trade receivables to financial instruments measured at fair value through profit or loss.

Fair value estimate

A discounted cash flow valuation of Glocell Distribution has been used to determine the value of Glocell's 40% shareholding in Glocell Distribution. This is used to determine the fair value of the loan. This valuation has been performed by the finance department of the Group using cash flow projections based on forecasts for up to five years, which are based on assumptions of the business, industry and economic growth.

Based on the outcome of the value-in-use calculation, no fair value movements were recognised against the financial asset (31 May 2019: fair value loss of R141 million).

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

6. Financial instruments continued

Key assumptions applied in value-in-use calculation	%
Discount rate	21.4
Terminal growth rate	4.5

Effect on fair value due to change in key assumption	%	(Decrease)/ increase in loan at fair value
Change in discount rate	1	(11 415)
	(1)	12 849
Change in terminal growth rate	2	15 670
	(2)	(12 354)

Put option liability

Put option liabilities represent contracts that impose an obligation on Blue Label Telecoms Limited to purchase the shares of a subsidiary for cash or another financial asset. Put option liabilities are initially raised from the transaction with non-controlling interest reserve in equity at the present value of the expected redemption amount payable. Subsequent revisions to the expected redemption amount payable as well as the unwinding of the discount related to the measurement of the present value of the put option liability, are recognised in the income statement. Where a put option liability expires unexercised or is cancelled, the carrying value of the financial liability is released to the transaction with non-controlling interest reserve in equity. The put option liabilities are level 3 instruments in the fair value hierarchy.

Changes in level 3 instruments are as follows:

	Six months ended 30 November 2019 Reviewed R'000	Year ended 31 May 2019 Audited R'000
Opening balance	**158 638**	97 947
Acquisition of AV Technology	–	62 784
Fair value gain/(loss) recognised in profit or loss	**11 350**	(2 093)
Closing balance	**169 988**	158 638

This relates to a put option that Blue Label Telecoms Limited has against it on the remaining 40% shareholding in Airvantage and AV Technology. This is exercisable within the next 12 months. Blue Label Telecoms will settle this from available cash resources. The option is valued based on the audited net profit after tax for 12 months ending 31 May 2020 at a six times earnings multiple.

The sensitivities of the put options in aggregate are as follows:

	Increase/ (decrease) in put option liabilities and loss/ (gain) in the income statement
1% increase in discount rate, 10% decrease in net profit after tax	(17 755)
1% decrease in discount rate, 10% increase in net profit after tax	17 929

7. Non-current assets held-for-sale and discontinued operations

Accounting policy

Non-current assets (or disposal groups) are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held-for-sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held-for-sale continue to be recognised.

Non-current assets classified as held-for-sale and the assets of a disposal group classified as held-for-sale are presented separately from the other assets in the statement of financial position. The liabilities of a disposal group classified as held-for-sale are presented separately from other liabilities in the statement of financial position.

A discontinued operation is a component of the entity that has been disposed of or is classified as held-for-sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the statement of comprehensive income.

Description

On 25 September 2019 the Group announced it had entered into an agreement to dispose of its 85% shareholding in Blue Label Mobile (which includes Airvantage, Airvantage Brazil, AV Technology, Cellfind and Viamedia) as well as its 51% shareholdings in Simigenix Proprietary Limited (Simigenix) and Panacea Proprietary Limited (Panacea) (together the VAS Operations), to DNI 4PL Contracts Proprietary Limited (DNI), for a purchase consideration of R450 million, inclusive of loan claims, plus the amounts which Blue Label Mobile has disbursed towards the acquisition of 50% of Hyve as at the transaction closing date (amounting to approximately R81 million). As there are amounts owing to the shareholders with respects to the Hyve purchase, the Hyve transaction is not yet effective and its results have not been included in the Group's results at 30 November 2019. At 30 November 2019 certain conditions precedent remain outstanding, the completion of which is at an advanced stage and as such the sale is expected to be completed within 12 months from the reporting date. The purchase price will be as follows:

- R350 million plus the amounts BLT has disbursed for the acquisition of 50% of Hyve as at the transaction closing date (amounting to approximately R81 million); and
- R100 million, bearing interest at prime overdraft rates plus 2% per annum compounded on a monthly basis, which is contingent upon the solvency and liquidity status of Cell C being proven.

The above proceeds received will be applied to reduce interest-bearing debt.

Post-disposal of Blue Label Mobile, BLT will continue to assume the obligation with respect to the put and/or call options on 40% of the shares in Airvantage and AV Technology, until such time as the solvency and liquidity status of Cell C is proven. At that stage the obligation in respect of the put and/or call options will revert back to Blue Label Mobile. The put and/or call options cannot be exercised prior to the finalisation of the 31 May 2020 financial results of both entities. Should BLT be obligated to meet the commitment relating to the put option, and the solvency and liquidity is never proven thereafter, then the R100 million contingent purchase price and the interest accrued thereon will be forfeited by BLT, but in lieu thereof, BLM will transfer an additional 24% of the issued share capital of Airvantage and AV Technologies to BLT, resulting in BLT ownership of these entities amounting to 64%. Should BLT be obligated to meet the commitment relating to the put option, and the solvency and liquidity of Cell C is proven thereafter, then the R100 million contingent purchase price and the interest accrued thereon will be payable to BLT plus the cost of the 40% put option shares that will be transferred to Blue Label Mobile.

Also on 25 September 2019 the Group announced that 3G Mobile Proprietary Limited (3G) will distribute its shares in Comm Equipment Company (CEC) to its shareholder, The Prepaid Company. The latter will thereafter dispose of 100% of the shares in 3G to DNI for a purchase consideration of R544 million. This disposal group will be referred to as 3G Mobile. The sale of 3G Mobile was completed on 14 February 2020.

The above proceeds received will be applied to reduce interest-bearing debt.

For further details related to the proposed transactions and the historical financial information of the VAS Operations and 3G Mobile refer to the circular distributed to shareholders on 4 November 2019 available on Blue Label's website, www.bluelabeltelecoms.co.za.

7. Non-current assets held-for-sale and discontinued operations continued

	VAS Operations six months ended Reviewed 30 November 2019 R'000	3G Mobile six months ended Reviewed 30 November 2019 R'000	Total six months ended Reviewed 30 November 2019 R'000
Revenue and other incomes	198 129	1 176 691	1 374 820
Expenses	(139 663)	(1 136 988)	(1 276 651)
Other losses*	(26 886)	(26 346)	(53 232)
Profit before taxation	31 580	13 357	44 937
Taxation	(16 340)	(12 636)	(28 976)
Profit after taxation of discontinued operations	15 240	721	15 961
Exchange differences on translation of discontinued operations	(531)	–	(531)
Other comprehensive loss from discontinued operations	(531)	–	(531)
Total comprehensive income from discontinued operations	14 709	721	15 430
Profit for the period attributable to:	15 240	721	15 961
Equity holders of the parent	730	721	1 451
Non-controlling interest	14 510	–	14 510
Total comprehensive income for the period attributable to:	14 709	721	15 430
Equity holders of the parent	990	721	1 711
Non-controlling interest	13 719	–	13 719
Net cash inflow/(outflow) from ordinary activities	103 585	(10 882)	92 703
Net cash inflow from investing activities	6 845	99 720	106 565
Net cash outflow from financing activities	(39 631)	–	(39 631)
Net increase in cash generated by the discontinued operations	70 799	88 838	159 637

* *In line with the requirements of IFRS 5, management has performed an assessment to measure the disposal groups classified as held-for-sale at the lower of their carrying amount and fair value less cost to sell with the following conclusions being reached:*

- *VAS Operations: Fair value less cost to sell has been determined based on the selling price as per the VAS Operations sales agreement. The determination of the fair value of the selling price of R423 million involved significant management judgement. For further information in this regard refer to the information under the "Critical accounting judgements and assumptions" heading. The impairment losses arising from measuring the VAS Operations at the lower of its carrying value and fair value less costs to sell of R26.9 million have been recorded in the "Profit from discontinued operation" line item within the condensed Group statement of comprehensive income after taking into account loan claims of R52.3 million to which the sale proceeds would first be applied.*
- *3G Mobile: Fair value less cost to sell has been determined based on the selling price of R544 million as per the 3G Mobile sales agreement. The impairment losses arising from measuring 3G Mobile at the lower of its carrying value and fair value less costs to sell of R26.3 million have been recorded in the "Profit from discontinued operation" line item within the condensed Group statement of comprehensive income.*

Notes to the reviewed condensed Group results continued

7. Non-current assets held-for-sale and discontinued operations continued

	VAS Operations six months ended Unaudited 30 November 2018 R'000	3G Mobile six months ended Unaudited 30 November 2018 R'000	Total six months ended Unaudited 30 November 2018 R'000
Revenue and other incomes	214 481	823 952	1 038 433
Expenses	(153 913)	(787 700)	(941 613)
Profit before taxation	60 568	36 252	96 820
Taxation	(15 041)	(10 409)	(25 450)
Profit after taxation of discontinued operations	45 527	25 843	71 370
Exchange differences on translation of discontinued operations	7 394	–	7 394
Other comprehensive income from discontinued operations	7 394	–	7 394
Total comprehensive income from discontinued operations	52 921	25 843	78 764
Profit for the period attributable to:	45 527	25 843	71 370
Equity holders of the parent	35 455	25 843	61 298
Non-controlling interest	10 072	–	10 072
Total comprehensive income for the period attributable to:	52 921	25 843	78 764
Equity holders of the parent	42 236	25 843	68 079
Non-controlling interest	10 685	–	10 685
Net cash inflow/(outflow) from ordinary activities	88 961	(98 035)	(9 074)
Net cash (outflow)/inflow from investing activities	(3 743)	88 961	85 218
Net cash outflow from financing activities	(15 005)	(20)	(15 025)
Net increase in cash generated/(utilised) by the discontinued operations	70 213	(9 094)	61 119

Notes to the reviewed condensed Group results continued

7. Non-current assets held-for-sale and discontinued operations continued

Assets and liabilities classified as held-for-sale

The following assets and liabilities were reclassified as non-current assets and liabilities held-for-sale in relation to the discontinued operations as at 30 November 2019:

	VAS Operations As at Reviewed 30 November 2019 R'000	3G Mobile As at Reviewed 30 November 2019 R'000	Total As at Reviewed 30 November 2019 R'000
Assets classified as held-for-sale			
Property, plant and equipment	7 809	7 824	15 633
Intangible assets	312 656	79 030	391 686
Goodwill	220 940	25 732	246 672
Investments in and loans to associates and joint ventures	18 028	–	18 028
Right-of-use assets	11 486	1 553	13 039
Loans receivable	8 998	–	8 998
Trade and other receivables	202 081	473 268	675 349
Deferred taxation assets	1 604	9 755	11 359
Inventories	107	199 404	199 511
Financial assets at fair value through profit or loss	–	349	349
Current tax assets	2 238	1 906	4 144
Cash and cash equivalents	67 134	114 708	181 842
Total assets classified as held-for-sale	853 081	913 529	1 766 610
Liabilities directly associated with assets classified as held-for-sale			
Deferred taxation liabilities	80 329	21 622	101 951
Borrowings	6 442	215	6 657
Lease liability	13 364	1 618	14 982
Trade and other payables	180 523	345 337	525 860
Provisions	–	5 426	5 426
Current tax liabilities	9 550	3 998	13 548
Bank overdraft	–	7 157	7 157
Total liabilities classified as held-for-sale	290 208	385 373	675 581
Non-controlling interest	117 989	–	117 989

Notes to the reviewed condensed Group results continued

7. Non-current assets held-for-sale and discontinued operations continued

Critical accounting judgements and assumptions

As explained under the heading "Financial performance and cash flow information", management performed an exercise in terms of IFRS 5 under which the fair value less cost to sell was estimated for the VAS Operations. The fair value of the VAS Operations was determined using the fair value of the selling price. Since the ultimate consideration realised for the VAS Operations will depend partly on whether Cell C's solvency and liquidity is proven, and if not, it will depend partly on the value of 24% of the shares in Airvantage and AV Technology, the determination of the fair value of the selling price involved significant management judgement and, accordingly, is a level 3 input per the fair value hierarchy. The fair value was determined using a probability-weighted basis which reflects the extent to which management believes that Cell C's solvency and liquidity will be proven, as well as management's estimate of the fair value of 24% of Airvantage and AV Technology:

	Solvency and liquidity of Cell C is proven	Solvency and liquidity of Cell C remains unproven
Cash consideration	R450 million	R350 million
Fair value of 24% of the issued share capital of Airvantage and AV Technology	R0*	R43 million
Total fair value	**R450 million**	**R393 million**
Attributed probability percentage	51%	49%
Total weighted average fair value		**R423 million**

* *Not applicable as the R100 million contingent purchase consideration will be received.*

The fair value of 24% of Airvantage and AV Technology was determined taking account of the adverse impact on Airvantage's operations should the solvency and liquidity of Cell C remain unproven since the Airvantage business is largely dependent on Cell C. It has been assumed that Airvantage would not continue to trade and hence no value has been attributed to its 24% share capital. The fair value of 24% of AV Technologies' share capital is estimated to be R43 million which was determined with reference to its contribution to the total profit of the VAS Operations applied to the total selling price as per the VAS Operations sales agreement.

In determining the extent to which management believes that Cell C's solvency and liquidity will be proven, the fair value less cost to sell of the contingent portion of the consideration related to the solvency and liquidity status of Cell C, management has considered the following qualitative considerations:

- MTN national roaming agreement: The long-form agreements, relating to the extended national roaming agreement, were signed by Cell C and MTN South Africa on 18 November 2019, subject to certain conditions precedent. If successfully implemented, the national roaming agreement will result in substantial cost-savings for Cell C by reducing network and capex spend.
- Recapitalisation and/or debt restructuring of Cell C: A recapitalisation of Cell C and/or a debt restructuring is essential in order to avoid further defaults on debt repayments when due. A capital restructure programme is under way and if successfully implemented would have a positive impact on Cell C's solvency and liquidity position.

These ongoing matters cast significant doubt over Cell C's ability to continue as a going concern should they not materialise. Nevertheless, management believes it is more likely than not that Cell C will continue as a going concern.

8. Change in accounting policies

IFRS 16

The Group has adopted IFRS 16 – *Leases* from 1 June 2019 under the modified retrospective approach, and has therefore not restated comparatives for the previous reporting period, as permitted under this specific transitional provision in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 June 2019.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17 – *Leases*. These liabilities were measured at the present value of the remaining lease payments, and discounted using the lessee's incremental borrowing rate as of 1 June 2019. Lease payments escalate at fixed rates. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 June 2019 was 10.44%.

	R'000
Operating lease commitments of continuing operations disclosed as at 31 May 2019	**159 512**
Lease commitments discounted using the lessee's incremental borrowing rate at 1 June 2019	**135 795**
Less: short-term leases recognised on a straight-line basis as expense	**(2 106)**
Less: adjustments as a result of a different treatment of extension and termination options	**4 729**
Lease liability recognised as at 1 June 2019	**138 418**

The associated right-of-use assets are measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 May 2019.

Operating profit increased by R3.6 million and earnings per share decreased by 0.27c for the six months to 30 November 2019 as a result of the adoption of IFRS 16. On the Group statement of financial position a right-of-use asset of R122 million, a non-current lease liability of R96 million and a current lease liability of R35 million has been recognised as at 30 November 2019 as a result of the adoption of IFRS 16. There was no effect on opening retained earnings.

	R'000
Lease liabilities	
Opening balance	–
Adoption of IFRS 16	**138 418**
Increase in liabilities	**8 908**
Interest expense (unwinding)	**6 983**
Repayments	**(22 929)**
Termination of leases	**(743)**
Closing balance	**130 637**

	R'000
Lease assets	
Opening balance	–
Adoption of IFRS 16	**135 057**
Additions	**8 908**
Amortisation	**(20 956)**
Impairments	–
Termination of leases	**(691)**
Closing balance	**122 318**

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous of which the Group had none;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 June 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 – *Determining whether an Arrangement contains a Lease*.

Notes to the reviewed condensed Group results continued

8. Change in accounting policies continued

The Group leases various offices, warehouses and retail stores. Rental contracts are typically made for fixed periods of one to four years but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until 31 May 2019, leases of property, plant and equipment were classified as operating leases. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 June 2019, leases are recognised as a right-of-use assets and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:
- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Payments associated with short-term leases (12 months or less) and leases of low-value assets (less than R50 000) are recognised on a straight-line basis as an expense in profit or loss.

Critical estimates

The term of a lease includes periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option. The Group did not take into account renewals in the majority of leases as there is material uncertainty as to whether the option to renew will be exercised. Material uncertainty arises in cases where BLT is not locked into renewals, alternative leasing arrangements are available and there is no firm commitment or formal decision to renew.

9. Prior year error

Venture capital accounting to equity accounting

As reported in 31 May 2019 annual financial statements, the Group has amended the way it accounts for its investment in Oxigen Services India, Oxigen Online and 2DFine Holdings Mauritius from venture capital investments to using equity-accounting principles. The details regarding this error have been disclosed in the integrated annual report for 31 May 2019 (note 11).

	30 November 2018 Unaudited As previously reported R'000	30 November 2018 Unaudited restated R'000	Difference R'000
Effect on Group statement of comprehensive income (extract)			
Gain on associates measured at fair value	13 115	–	(13 115)
Share of (losses)/profits from associates and joint ventures	(138 038)	(148 235)	(10 197)
Net loss for the year attributable to equity holders of the parent	(116 532)	(139 844)	(23 312)
EPS	(12.59)	(15.11)	(2.52)
Diluted EPS	*	*	
HEPS	(15.02)	(17.54)	(2.52)
Diluted HEPS	*	*	
Core HEPS	(11.39)	(13.90)	(2.51)

** There were no dilutive instruments.*

10. Subsequent events and update on Cell C

Subsequent events

Agreements for the disposal of Blue Label's interests in Blue Label Mobile and the handset division of 3G Mobile were entered into on 25 September 2019 and approved by Blue Label shareholders on 4 December 2019.

With regard to the disposal of 3G Mobile's trading operations all suspensive conditions have been fulfilled and the purchase price of R544 million was received on 14 February 2020.

In relation to the disposal of Blue Label Mobile, certain conditions precedent remain outstanding, the completion of which is at an advanced stage. Upon fulfilment thereof, R350 million of the selling price of R450 million as well as all monies paid by Blue Label Mobile towards the acquisition of Hyve Mobile Proprietary Limited and Mobile Content Africa Limited amounting to approximately R81 million will be received. The remaining R100 million plus interest thereon is contingent on the terms of the conditions contained in the circular to shareholders published on 6 November 2019.

As at the date of publication of the 31 May 2019 financial statements, The Prepaid Company's Investec banking facilities had been extended to 29 November 2019. On 29 November 2019, these banking facilities totalling R2.176 billion were successfully renewed, of which R1.5 billion was extended for a period of 12 months and R676 million for nine months. Of the latter amount, R131 million has been paid to date, with the remaining balance of R545 million to be repaid by 31 August 2020.

In February 2020, The Prepaid Company renegotiated a further extension of the R1.5 billion facility to 31 March 2021, at which date the exposure to Investec is required to be no more than R1 billion.

As at 30 November 2019 the Investec facilities were disclosed as current borrowings amounting to R2.1 billion, as the extension to 31 March 2021 was only granted in February 2020.

The Board of Directors have evaluated the going concern assumption as at 30 November 2019 and considered it to be appropriate in the preparation of these interim financial statements.

Update on Cell C

On 2 August 2017, Blue Label, through its wholly owned subsidiary, The Prepaid Company, acquired 45% of the issued share capital of Cell C for a purchase consideration of R5.5 billion. For the six months ended 30 November 2019, management appointed an independent third-party valuation specialist to determine the value-in-use based on cash flow projections incorporated in the five-year Cell C business plan. They applied assumptions relating to the business, the industry and economic growth. Cash flows beyond this point were then extrapolated, applying terminal growth rates that did not exceed the expected long-term economic growth rate. The valuation remained at a Rnil value at 30 November 2019 (31 May 2019: Rnil).

The long-form agreements, relating to the extended national roaming agreement, were signed by Cell C and MTN South Africa on 18 November 2019, subject to certain conditions precedent. If successfully implemented, the national roaming agreement will result in substantial cost-savings for Cell C by reducing network and capex spend. A recapitalisation of Cell C and/or a debt restructuring is essential in order to avoid further default on debt repayments when due. A capital restructure programme is in process and if successfully implemented would have a positive impact on Cell C's solvency and liquidity position. The impact of the above transactions in progress relating to a national roaming agreement and the recapitalisation of Cell C were not in effect as at 30 November 2019 and as such have not been accounted for in the valuation at that date.

These ongoing matters cast significant doubt over Cell C's ability to continue as a going concern should they not materialise and the Group will update the market on any significant developments related to these ongoing matters as and when they occur. On 23 January 2020 Cell C notified its noteholders that is has defaulted on the payment of interest on its USD184 002 000 note which was due in December 2019 as well as interest and capital repayments related to the respective bilateral loan facilities between Cell C and Nedbank Limited, China Development Bank Corporation, Development Bank of Southern Africa Limited and Industrial and Commercial Bank of China Limited which was due in January 2020. Noteholders are aware and support that Cell C is committed to resolving the situation by agreeing to restructuring terms with its lenders while it also continues to work proactively with all stakeholders to improve its liquidity, debt profile and long-term competitiveness.

For purposes of the Group's interim financial statements for the half-year ended 30 November 2019, Cell C has been accounted for using the going concern assumption. As the Group's share of Cell C's losses exceed the carrying amount of the investment (Rnil), the Group has ceased recognising its share of further losses. If Cell C subsequently generates profits, the Group will resume recognising its share of profits only after its share of the profits equals the share of losses not recognised.

Notes to the reviewed condensed Group results continued

11. Basis of preparation

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 and Financial Pronouncements as issued by Financial Reporting Standards Council and the requirements of the Companies Act of South Africa. The accounting policies applied in the preparation of these interim financial statements are in terms of International Financial Reporting Standards (IFRS) and are consistent with those applied in the previous annual financial statements.

The accounting policies used in preparing the condensed reviewed consolidated interim report are consistent with those applied in the previous annual financial statements, except for the adoption of IFRS 16 – *Leases* and the application of IFRS 5 – *Non-current Assets Held-for-Sale and Discontinued Operations*. See note 8 and note 7 respectively for more detail.

We aim to provide stakeholders with the same additional information that management uses to evaluate the performance of the Group's operations. Accordingly, we make reference to operating profit before depreciation, amortisation and impairment charges (EBITDA). In addition, the Group applies core net profit and core headline earnings as non-IFRS measures in evaluating the Group's performance. This supplements the IFRS measures. 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*. Core headline earnings are calculated by adjusting core net profit with the headline earnings adjustments required by SAICA Circular 4/2018.

The results for the period ended 30 November 2019 have been reviewed.

12. Significant related party transactions and balances

	Six months ended 30 November Reviewed 2019 R'000	Six months ended 30 November Unaudited 2018 R'000	Year ended 31 May Audited 2019 R'000
Sales to related parties			
Cell C Proprietary Limited	**740 246**	937 558	2 030 623
United Call Centre Solutions Proprietary Limited	**9 438**	3 125	13 854
Purchases from related parties			
Cell C Proprietary Limited	**1 976 317**	3 613 074	6 203 272
T3 Telecoms SA Proprietary Limited	**14 479**	–	31 312
United Call Centre Solutions Proprietary Limited	**12 779**	10 364	25 647
Interest received from related parties			
2DFine Holdings Mauritius*	**1 869**	12 853	3 776
Cell C Proprietary Limited	**198 813**	229 524	141 841
Loans to related parties			
2DFine Holdings Mauritius**	**211 556**	109 524	208 026
Brett Levy**	**42 357**	33 179	42 502
Mark Levy**	**42 357**	33 179	42 502
Oxigen Services India Private Limited	**47 031**	37 752	47 216
United Call Centre Solutions Proprietary Limited	**7 500**	25 000	17 000
ZOK Cellular Proprietary Limited	**11 286**	16 716	14 018
Total loss allowance on loans to related parties	**(271 469)**	(95 865)	(269 168)
Amounts due from related parties included in trade receivables			
Cell C Proprietary Limited***	**1 185 574**	1 148 940	1 352 718
Amounts due to related parties included in trade payables			
Cell C Proprietary Limited	**940 011**	1 615 760	1 212 392

* *Interest capitalised to the loan was fully provided for.*

** *Brett Levy and Mark Levy have signed personal sureties for the loan owed by 2DFine Holdings Mauritius to Gold Label Investments Proprietary Limited. As at November 2019 a combined surety asset of R85 million has been raised (May 2019: R85 million).*

*** *Prior year amount has been adjusted as advances to customers are not regarded as advances to Cell C. They are advances to Cell C's end user.*

Independent auditor's review report on the interim financial statements

To the shareholders of Blue Label Telecoms Limited

We have reviewed the condensed consolidated interim financial statements of Blue Label Telecoms Limited in the accompanying interim report, which comprise the condensed group statement of financial position as at 30 November 2019 and the related condensed group statements 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 (ISRE) 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 Blue Label Telecoms Limited for the six months ended 30 November 2019 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: Pietro Calicchio
Registered Auditor
Johannesburg

28 February 2020

Non-IFRS information

This announcement contains certain non-IFRS information which has not been reviewed or reported by the Group's auditors.

Administration

Directors: LM Nestadt (Chairman)*, BM Levy, MS Levy, K Ellerine**, GD Harlow*, JS Mthimunye*, DA Suntup, J Vilakazi*
**Independent Non-Executive* ***Non-Executive*

Company Secretary: J van Eden

Sponsor: Investec Bank Limited

Auditors: PricewaterhouseCoopers Inc.

Blue Label Telecoms Limited
(Incorporated in the Republic of South Africa)
(Registration number 2006/022679/06)

JSE share code: BLU **ISIN:** ZAE000109088
(Blue Label, BLT, the Company or the Group)

Bastion