BLUE LABEL TELECOMS

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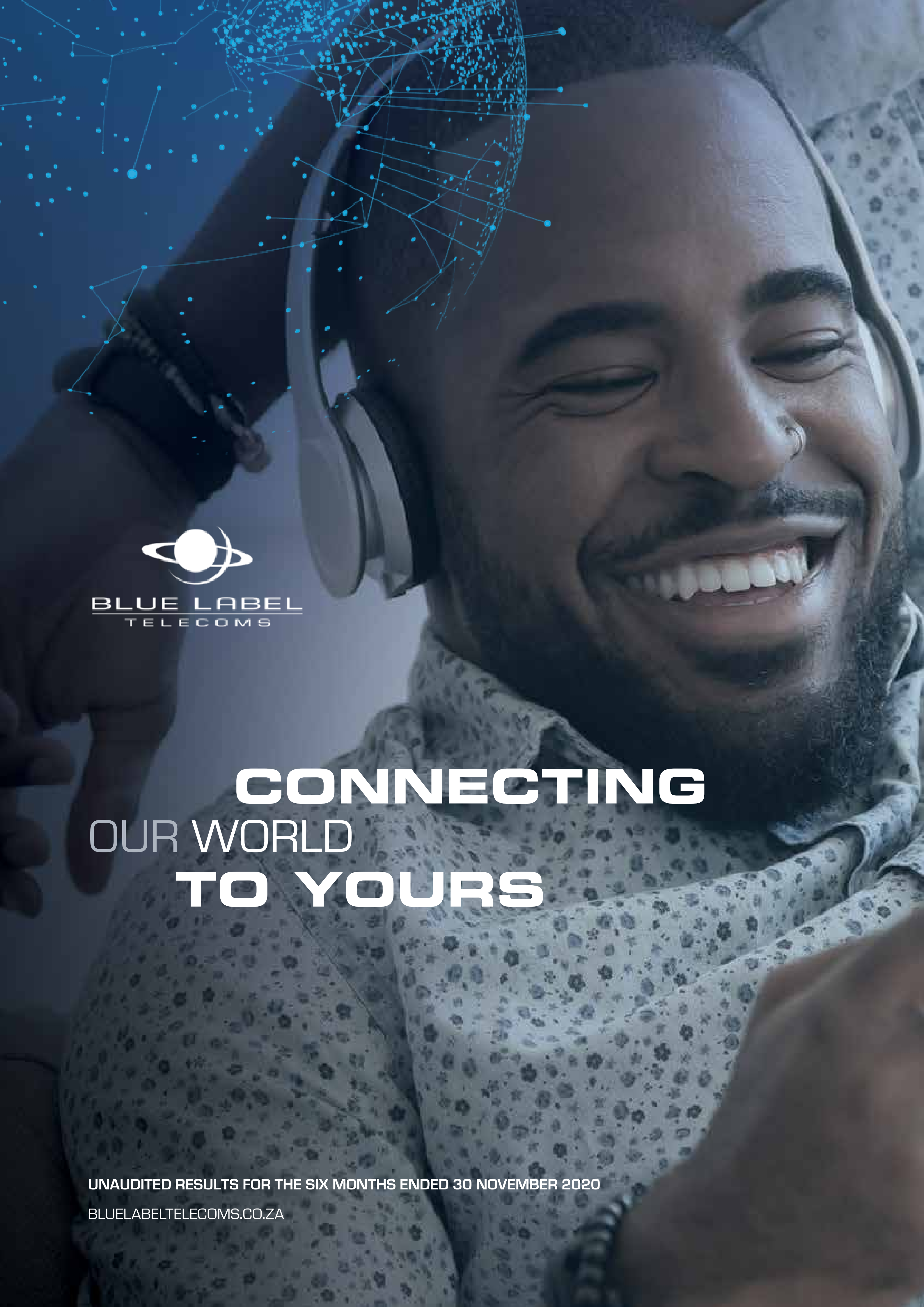

BLUE LABEL TELECOMS

CONNECTING OUR WORLD TO YOURS

UNAUDITED RESULTS FOR THE SIX MONTHS ENDED 30 NOVEMBER 2020

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FINANCIAL HIGHLIGHTS AND SALIENT FEATURES

Revenue of
R9.6 billion△

Increase in gross profit margin from
10.33% to **11.87%**

Gross profit of
R1.14 billion

Interest-bearing borrowings reduced to
R2.3 billion
(2019: R3.6 billion)

Net cash generated from operating activities of
R970 million

Headline earnings of
40.96 cents per share
(2019: 39.98 cents per share)

Core headline earnings of
42.70 cents per share#
(2019: 43.18 cents per share)

△ On inclusion of the gross amount generated on "PINless top-ups", prepaid electricity, ticketing and gaming, the effective increase equated to 7% from R30.2 billion to R32.4 billion.

On exclusion of non-recurring income pertaining to foreign exchange gains of R22 million, core headline earnings per share from continuing operations equated to 37.35 cents per share.

COMMENTARY

COVID-19 PANDEMIC

The performance of the Blue Label Group remains resilient in an adverse economic environment. In spite of the Covid-19 pandemic, the Group has continued to deliver essential services, including electricity, airtime, data and other digital services, as well as providing financial transactional services, which have not been negatively impacted. The Group's ticketing and call centre operations have been negatively impacted as a result of the Covid-19 pandemic. Cash flow generated by the Group strengthened, with cash generated from operating activities amounting to R970 million in the current period.

GROUP RESULTS

Despite the impact of Covid-19 and general economic challenges, core headline earnings for the period ended 30 November 2020 amounted to R376 million, equating to core headline earnings of 42.70 cents per share, of which R351 million related to continuing operations and R25 million to discontinued operations. On exclusion of non-recurring income pertaining to foreign exchange gains of R22 million, core headline earnings from continuing operations amounted to R329 million, equating to core headline earnings of 37.35 cents per share.

Core headline earnings for the comparative period amounted to R390 million, equating to 43.18 cents per share, of which R387 million related to continuing operations and R3 million to discontinued operations. On exclusion of non-recurring income of R1 million, core headline earnings from continuing operations amounted to R386 million, resulting in core headline earnings of 42.70 cents per share.

Earnings per share and headline earnings per share increased from 34.83 and 39.98 cents per share in the comparative period to 49.92 and 40.96 cents per share respectively in the current period.

The increase in basic earnings per share was primarily attributable to the disposal of the Group's 47.56% interest in Blue Label Mexico as well as a positive movement from a negative contribution by the Retail division of the WiConnect stores in the comparative period to a partial recoupment of losses in the current period. A decision was made to cease the operations of the WiConnect retail stores in the prior financial year.

The financial results of WiConnect in the current period of R25 million as well as those of Blue Label Mobile, the Handset division of 3G Mobile and WiConnect, totalling R3 million in the comparative period, are disclosed in core headline earnings from discontinued operations and are not included in the continuing operations' revenue, gross profit, EBITDA and net profit after taxation.

Revenue generated by the continuing operations within the Group declined by 15% to R9.6 billion. As only the gross profit earned on PINless top-ups, prepaid electricity, ticketing and gaming are recognised as revenue, on imputing the gross revenue generated thereon, the effective growth in revenue equated to 7% from R30.2 billion to R32.4 billion.

Gross profit declined by 3% from R1.17 billion to R1.14 billion, partially limited due to an increase in margins from 10.33% to 11.87%.

GROUP INCOME STATEMENT

Unaudited	Group November 2020 R'000	Group November 2019 R'000	Growth R'000	Growth %
Revenue	**9 582 022**	11 310 930	(1 728 908)	(15)
Gross profit	**1 137 650**	1 168 738	(31 088)	(3)
EBITDA	**703 334**	748 582	(45 248)	(6)
Share of profits/(losses) from associates and joint ventures	**1 016**	13 040	(12 024)	(92)
– Blue Label Mexico	**(6 554)**	(564)	(5 990)	(1 062)
– Other	**7 570**	13 604	(6 034)	(44)
Net profit from continuing operations	**412 601**	377 537	35 064	9
Core headline earnings	**376 433**	390 304	(13 871)	(4)
– from continuing operations	**351 568**	387 662	(36 094)	(9)
– from discontinued operations	**24 865**	2 642	22 223	841
Gross profit margin (%)	**11.87**	10.33		
EBITDA margin (%)	**7.34**	6.62		
Weighted average shares ('000)	**881 557**	903 958		
EPS (cents)	**49.92**	34.83	15.09	43
HEPS (cents)	**40.96**	39.98	0.98	2
Core HEPS (cents)	**42.70**	43.18	(0.48)	(1)
– from continuing operations	**39.88**	42.88	(3.00)	(7)
– from discontinued operations	**2.82**	0.30	2.52	840

COMMENTARY (continued)

EBITDA declined by R45 million from R749 million in the prior period to R703 million. The latter amount was inclusive of non-recurring income of R101 million, of which R79 million related to the disposal of the Group's interest in Blue Label Mexico and R22 million pertained to foreign exchange gains primarily attributable to the USD20 million liquidity support provided to SPV2. On exclusion of these amounts, EBITDA for the current period amounted to R602 million, at a margin of 6.28%.

The anticipated increase in overheads, which included costs attributable to additional headcount and expenditure incurred in order to enhance IT Infrastructure, escalate the quantum of distribution channels, enhance capacity in the Customer Interaction Centre and implement VAS and financial service strategies, contributed to the decline in EBITDA.

The Blue Label Group generated positive cash flows from its trading operations for the period ended 30 November 2020.

SEGMENTAL REPORT

AFRICA DISTRIBUTION

Unaudited	November 2020 R'000	Non-recurring income November 2020 R'000	Remaining November 2020 R'000	November 2019 R'000	Non-recurring income/ expenses November 2019 R'000	Remaining November 2019 R'000	Remaining growth R'000	Remaining growth %
Revenue	**9 492 806**	**–**	**9 492 806**	11 203 691	–	11 203 691	(1 710 885)	(15)
Gross profit	**1 113 310**	**–**	**1 113 310**	1 135 295	–	1 135 295	(21 985)	(2)
EBITDA	**663 285**	**16 009**	**647 276**	788 469	8 914	779 555	(132 279)	(17)
Net profit from continuing operations	**391 553**	**16 009**	**375 544**	428 378	8 914	419 464	(43 920)	(10)
Core headline earnings	**432 934**	**40 874**	**392 060**	419 570	(55 235)	474 805	(82 745)	(17)
– from continuing operations	**408 069**	**16 009**	**392 060**	437 648	8 914	428 734	(36 674)	(9)
– from discontinued operations	**24 865**	**24 865**	**–**	(18 078)	(64 149)	46 071	(46 071)	(100)
Gross profit margin (%)	**11.73**		**11.73**	10.13		10.13		
EBITDA margin (%)	**6.99**		**6.82**	7.04		6.96		

Revenue generated by the continuing operations within the segment declined by 15% from R11.2 billion to R9.5 billion. As only the gross profit earned on PINless top-ups, prepaid electricity, ticketing and gaming are recognised as revenue, on imputing the gross revenue generated thereon, the effective growth in revenue equated to 8% from R30.1 billion to R32.3 billion.

The Group continues to increase market share and bolster its product and services mix in order to defend and expand its positions in the market. Gross revenue generated on PINless top-ups increased by R2.2 billion from R6.9 billion to R9.0 billion.

Net commissions earned on the distribution of prepaid electricity amounted to R154 million. Revenue generated on behalf of the utilities increased by 16% from R11.4 billion to R13.2 billion.

Gross profit declined by 2% from R1.14 billion to R1.11 billion, limited due to an increase in margins from 10.13% to 11.73%.

EBITDA declined by R125 million from R788 million to R663 million. The increase in overheads of R89 million, which included costs attributable to additional headcount and expenditure incurred in order to enhance IT Infrastructure, escalate the quantum of distribution channels, enhance capacity in the Customer Interaction Centre and implement VAS and financial service strategies, had a direct impact on the decline in EBITDA.

Core headline earnings from continuing operations, both in the current and comparative periods, reflected non-recurring income of R16 million and R9 million respectively pertaining to foreign exchange gains on the USD20 million liquidity support provided to SPV2. On exclusion of this non-recurring income, core headline earnings from continuing operations declined by R37 million (9%) from R429 million to R392 million.

COMMENTARY (continued)

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 I Talk Holdings, an outbound call centre operation.

Unaudited	November 2020 R'000	November 2019 R'000	Growth R'000	Growth %
Revenue	**89 216**	107 239	(18 023)	(17)
Gross profit	**24 340**	33 443	(9 103)	(27)
EBITDA	**13 424**	23 855	(10 431)	(44)
Share of profits from associates and joint ventures	**5 057**	11 557	(6 500)	(56)
Core headline earnings	**12 667**	23 199	(10 532)	(45)
Gross profit margin (%)	**27.28**	31.19		
EBITDA margin (%)	**15.05**	22.24		

The decline in revenue of 17% to R89 million was attributable to lower demand for aggregated data and lead generations as a result of Covid-19, impacting negatively on the call centre operations.

Gross profit decreased by R9 million (27%) from R33 million to R24 million, congruent with the decline in revenue and margins from 31.19% to 27.28%. EBITDA declined by R10 million to R13 million.

Of the core headline earnings of R13 million, BLDS accounted for R9 million. I Talk Holdings generated earnings of R10 million, of which the Group's share thereof amounted to R4 million. Of the core headline earnings of R23 million in the comparative period, BLDS accounted for R14 million. I Talk Holdings generated earnings of R23 million, of which the Group's share thereof amounted to R9 million.

CORPORATE

Unaudited	November 2020 R'000	Non-recurring income November 2020 R'000	Remaining November 2020 R'000	November 2019 R'000	Non-recurring expenses November 2019 R'000	Remaining November 2019 R'000	Remaining growth R'000	Remaining growth %
EBITDA	**(40 079)**	**6 337**	**(46 416)**	(64 114)	(10 547)	(53 567)	7 151	13
Net loss from continuing operations	**(58 474)**	**6 337**	**(64 811)**	(74 082)	(10 547)	(63 535)	(1 276)	(2)
Core headline earnings	**(56 530)**	**6 337**	**(62 867)**	(74 082)	(10 547)	(63 535)	668	1

On exclusion of the non-recurring income of R6 million pertaining to the foreign exchange movements in the Oxigen India Group in the current period and extraneous costs of R11 million pertaining to the accounting implications of the put option for the acquisition of the remaining 40% minority share of Airvantage and AV Technology in the comparative period, the negative contribution to Group core headline earnings declined by R1 million to R63 million.

DEPRECIATION, AMORTISATION AND IMPAIRMENT CHARGES

Depreciation, amortisation and impairment charges on continuing operations decreased by R8 million to R93 million. Of this amount, R15 million related to depreciation raised in terms of IFRS 16 – *Leases* and R18 million to the amortisation of intangible assets resulting from the purchase price allocations on historical acquisitions.

Of the decline of R8 million, R7 million related to the amortisation of intangible assets.

COMMENTARY (continued)

NET FINANCE COSTS

Finance costs totalled R72 million, comprising interest paid on borrowed funds of R67 million and R5 million on the unwinding of the lease liability in terms of IFRS 16. On a comparative basis, interest paid on borrowed funds amounted to R114 million and R5 million on the unwinding of the lease liability. The decline of R47 million was as a result of the reduction in the Group's interest-bearing borrowings from R3.6 billion to R2.3 billion as well as a decrease in the prime overdraft rate.

Finance income decreased by R9 million, from R36 million to R28 million resulting from the decline in the prime interest rate.

STATEMENT OF FINANCIAL POSITION

Total assets increased by R0.3 billion to R10.6 billion, of which current assets accounted for R0.5 billion of the increase offset by a decrease in non-current assets of R0.2 billion.

Non-current assets included decreases in investments in and loans to associates and joint ventures of R140 million, advances to customers of R17 million, right-of-use assets of R14 million and other receivables of R23 million. These decreases were offset by increases in intangible assets and goodwill of R6 million and increases in capital expenditure net of depreciation of R8 million.

The net decrease of R140 million in investments in and loans to associates and joint ventures comprised the Group's net share of profits totalling R1.5 million, net loan increases of R2 million, acquisition of an associate of R5.5 million offset by disposals of R127 million primarily relating to Blue Label Mexico, its share of the movements in the foreign currency translation reserve amounting to R8 million and dividends received of R14 million.

Of the net increase in intangible assets and goodwill of R6 million, additions to intangible assets amounted to R81 million offset by amortisation of R75 million.

The material net increase in current assets included increases in inventory of R137 million, advances to customers of R76 million and increases in cash and cash equivalents of R619 million, offset by decreases in trade and other receivables of R366 million.

The stock turn from continuing operations equated to 16 days compared to 11 days for the financial year ended 31 May 2020.

The debtor's collection period from continuing operations remained at 57 days.

Net profit attributable to equity holders amounted to R440 million, contributing to accumulated capital and reserves of R2.9 billion.

Current liabilities declined by R49 million comprising decreases in financial liabilities at fair value of R350 million and financial guarantee contracts of R69 million. These declines were offset by an increase in trade and other payables of R402 million, with average credit terms from continuing operations equating to 94 days compared to 80 days for the financial year ended 31 May 2020.

The decrease in financial liabilities at fair value was due to the liquidity support payment of R331 million (USD20 million) to SPV2 and a foreign exchange movement of R19 million thereon. The decrease in financial guarantee contracts of R69 million was primarily due to a settlement of a corporate guarantee of R54 million on behalf of Oxigen Services India and foreign exchange movements of R6 million thereon.

STATEMENT OF CASH FLOWS

Cash generated from trading operations totalled R1.1 billion. Working capital movements comprised a decrease in trade receivables of R361 million, an increase in trade payables of R332 million offset by an increase in inventory of R137 million and increases in advances to customers of R59 million. After paying out net finance costs and taxation, cash generated from operating activities amounted to R970 million.

Net cash flows utilised in investing activities amounted to R207 million, primarily attributable to the liquidity support payment of R331 million (USD20 million) to SPV2, the purchase of intangible assets of R20 million, capital expenditure of R45 million and net loans granted of R19 million. This was offset by cash inflows from the proceeds on disposal of Blue Label Mexico of R191 million, proceeds on disposal of capital assets of R3 million and dividends received from a joint venture of R14 million.

Cash flows utilised in financing activities amounted to R146 million, of which R13 million related to dividend payments to non-controlling interests, R31 million to lease payments, R62 million to settlement of financial guarantees and R44 million to treasury shares acquired, offset by R5 million from the net increase in borrowings.

Cash and cash equivalents accumulated to R2.6 billion at 30 November 2020.

COMMENTARY (continued)

FORFEITABLE SHARE SCHEME

Forfeitable shares totalling 15 565 697 (2019: 18 405 894) were issued to qualifying employees. During the period, 983 768 (2019: 919 706) shares were forfeited and 682 748 (2019: 490 649) shares vested.

SUBSEQUENT EVENTS

Banking facilities

In February 2021, The Prepaid Company renegotiated a further extension of its Investec facility to 31 March 2022, whereby the facility will remain at R1.5 billion until the end of April 2021, at which date the exposure to Investec is required to be reduced by R50 million per month to 28 February 2022. The exposure to Investec is required to be no more than R1 billion as at 31 March 2022.

As at 30 November 2020 the Investec facility is disclosed as current borrowings, as the extension to 31 March 2022 was only granted in February 2021.

Airvantage and AV Technology put obligations

In October 2020, the minority shareholders of Airvantage Proprietary Limited ("Airvantage") and AV Technology Limited ("AV Tech") exercised their rights to put their 40% shareholding therein to Blue Label Telecoms ("BLT"), in line with the initial agreements that were concluded between the parties in 2017. The purchase consideration under the put options, as determined by the parties in December 2020, for the 40% shareholdings in Airvantage and AV Tech, amounted to R152 million and USD4.6 million respectively ("Purchase Price").

In February 2021, the parties concluded an agreement legislating for a deferral of the Purchase Price payable to the minority shareholders of Airvantage and AV Tech from 31 December 2020 to 31 March 2021, payable in six equal monthly instalments, inclusive of interest, commencing on 31 March 2021.

If Cell C Limited's board is able to pass a solvency and liquidity test, the primary obligation in respect of the put options can be transferred to Digital Ecosystems Proprietary Limited "(DE"), formerly Blue Label Mobile Proprietary Limited, in terms of the agreement concluded with it in September 2019.

A subsequent agreement has been reached between BLT and DE, whereby the parties agreed that BLT's primary obligations to the minority shareholders will be transferred to DE ahead of any Cell C test in respect of its solvency and liquidity.

A formal agreement legislating for the above will be concluded imminently. If, however, Cell C is unable to pass the solvency and liquidity test in the future, the primary obligation in respect of the put options may revert back to BLT.

APPRECIATION

We are thankful to all our staff members who have adapted to new ways of working during these unprecedented times and continue to contribute to the Group's performance. We are proud of the role that we have played as an essential goods provider, while always ensuring a safe environment. We are also thankful to the Board, suppliers, customers and business partners for their continued support and commitment to the Group.

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

25 February 2021

** Supervised the preparation of the Group's unaudited six-month period ended results.*

FINANCIAL PERFORMANCE

CONDENSED GROUP STATEMENT OF FINANCIAL POSITION

As at	Note	30 November 2020 Unaudited R'000	31 May 2020 Audited R'000
ASSETS			
Non-current assets		**2 177 090**	2 357 620
Property, plant and equipment		**206 214**	198 688
Right-of-use asset		**73 881**	87 852
Intangible assets		**539 477**	533 853
Goodwill		**681 754**	681 243
Investments in and loans to associates and joint ventures		**57 291**	197 455
Loans receivable		**36 480**	36 516
Advances to customers		**432 918**	449 825
Financial assets at fair value through profit or loss	7	**84 151**	104 829
Deferred taxation assets		**64 924**	67 359
Current assets		**8 459 987**	7 996 086
Inventories		**713 766**	576 950
Loans to associates and joint ventures		**8 817**	9 488
Loans receivable		**51 436**	35 604
Trade and other receivables		**3 563 342**	3 929 743
Advances to customers		**1 308 069**	1 232 250
Financial assets at fair value through profit or loss	7	**144 015**	144 709
Current tax assets		**36 652**	52 425
Cash and cash equivalents		**2 633 890**	2 014 917
Total assets		**10 637 077**	10 353 706
EQUITY AND LIABILITIES			
Capital and reserves		**2 854 778**	2 485 117
Issued share capital and premium		**7 541 566**	7 573 586
Other reserves		**(2 742 108)**	(2 689 960)
Retained earnings		**(2 002 903)**	(2 442 993)
Total ordinary shareholders' equity		**2 796 555**	2 440 633
Non-controlling interest		**58 223**	44 484
Non-current liabilities		**171 605**	208 689
Deferred taxation liabilities		**111 634**	124 990
Borrowings		**2 778**	2 778
Other payables		**17**	–
Lease liability		**57 176**	80 921
Current liabilities		**7 610 694**	7 659 900
Trade and other payables		**5 014 059**	4 611 643
Lease liability		**30 949**	60 202
Financial guarantee contracts	6	**132 458**	201 474
Provisions		**9 008**	29 534
Financial liabilities at fair value through profit or loss	7	**85 249**	435 086
Current tax liabilities		**14 770**	5 386
Borrowings		**2 322 119**	2 316 383
Bank overdraft		**2 082**	192
Total equity and liabilities		**10 637 077**	10 353 706

FINANCIAL PERFORMANCE (continued)

CONDENSED GROUP STATEMENT OF COMPREHENSIVE INCOME

For the six months ended	Note	30 November 2020 Unaudited R'000	30 November 2019 Unaudited Restated* R'000
CONTINUING OPERATIONS			
Revenue	4	**9 582 022**	11 310 930
Revenue from contracts with customers		**9 365 787**	11 112 117
Finance revenue		**216 235**	198 813
Other income		**93 213**	26 081
Changes in inventories of finished goods		**(8 412 569)**	(10 059 016)
Finance costs incurred in the generation of revenue		**(31 804)**	(83 176)
Employee compensation and benefit expense		**(285 271)**	(249 137)
Depreciation and amortisation		**(93 183)**	(101 105)
Impairments and fair value gains/(losses)		**39 970**	(2 874)
Other expenses		**(282 227)**	(194 226)
Operating profit		**610 151**	647 477
Finance costs		**(71 869)**	(119 481)
Finance income		**27 529**	36 197
Share of profits from associates and joint ventures		**1 017**	13 040
Profit before taxation		**566 828**	577 233
Taxation		**(127 317)**	(159 363)
Profit from continuing operations for the period		**439 511**	417 870
Profit/(loss) from discontinued operations	8	**27 489**	(48 188)
Profit for the period		**467 000**	369 682
Other comprehensive loss:			
Items reclassified to profit or loss			
Foreign currency translation reserve reclassified to profit or loss		**(52 538)**	–
Items that may be subsequently reclassified to profit or loss			
Share of other comprehensive loss of associates and joint ventures		**(7 715)**	(221)
Foreign exchange loss on translation of foreign operations		**–**	(2 664)
Other comprehensive loss for the period, net of tax		**(60 253)**	(2 885)
Total comprehensive income for the period		**406 747**	366 797
Profit for the period attributable to:		**467 000**	369 682
Equity holders of the parent		**440 090**	314 839
Non-controlling interest		**26 910**	54 843
Profit for the period attributable to equity holders of the parent arises from:		**440 090**	314 839
Continuing operations		**412 601**	377 537
Discontinued operations		**27 489**	(62 698)
Total comprehensive income for the period attributable to:		**406 747**	366 797
Equity holders of the parent		**379 837**	312 467
Non-controlling interest		**26 910**	54 330
Total comprehensive income for the period attributable to equity holders of the parent arises from:		**379 837**	312 467
Continuing operations		**352 348**	374 905
Discontinued operations		**27 489**	(62 438)
Earnings per share	2	**49.92**	34.83
Continuing operations		**46.80**	41.76
Discontinued operations		**3.12**	(6.93)
Diluted earnings per share	2	**47.85**	34.35
Continuing operations		**44.86**	41.28
Discontinued operations		**2.99**	(6.93)

* As a result of discontinued operations, the Group has restated their comparative financial information. Refer to note 8.

FINANCIAL PERFORMANCE (continued)

CONDENSED GROUP STATEMENT OF CHANGES IN EQUITY

	Issued share capital and premium Audited R'000	Retained earnings Audited R'000	Other reserves Audited R'000	Total ordinary shareholders' equity Audited R'000	Non-controlling interest Audited R'000	Total equity Audited R'000
Balance as at 1 June 2019	7 599 016	(2 405 031)	(2 824 740)	2 369 245	122 317	2 491 562
Net profit for the year	–	124 481	(11 450)	124 481	94 626	219 107
Other comprehensive income/(loss)	–	–	–	(11 450)	13 095	1 645
Total comprehensive income/(loss)	–	124 481	(11 450)	113 031	107 721	220 752
Treasury shares purchased	(46 352)	–	–	(46 352)	–	(46 352)
Equity compensation benefit scheme shares vested	20 922	–	(20 582)	340	(340)	–
Equity compensation benefit movement	–	(7 093)	16 332	9 239	119	9 358
Transaction with non-controlling interest reserve movement[1]	–	(156 750)	156 750	–	–	–
Non-controlling interest acquired	–	–	(18 105)	(18 105)	17 590	(515)
Blue Label Mobile Restructure[2]	–	–	13 235	13 235	21 200	34 435
Non-controlling interest disposed of	–	–	–	–	(156 654)	(156 654)
Share-based payment reserve recycled to retained earnings	–	1 400	(1 400)	–	–	–
Dividends paid	–	–	–	–	(67 469)	(67 469)
Balance as at 31 May 2020	7 573 586	(2 442 993)	(2 689 960)	2 440 633	44 484	2 485 117

[1] The majority of this amount relates to the derecognition of the transaction with non-controlling interest reserve on the effective date of the VAS Operations disposal. Refer to note 11 of the Group annual financial statements for the year ended 31 May 2020.

[2] Refer to note 11 of the Group annual financial statements for the year ended 31 May 2020 for the details on the Blue Label Mobile Restructure.

	Issued share capital and premium Unaudited R'000	Retained earnings Unaudited R'000	Other reserves Unaudited R'000	Total ordinary shareholders' equity Unaudited R'000	Non-controlling interest Unaudited R'000	Total equity Unaudited R'000
Balance as at 1 June 2020	7 573 586	(2 442 993)	(2 689 960)	2 440 633	44 484	2 485 117
Profit for the period	–	440 090	–	440 090	26 910	467 000
Other comprehensive loss	–	–	(60 253)	(60 253)	–	(60 253)
Total comprehensive income	–	440 090	(60 253)	379 837	26 910	406 747
Treasury shares purchased	(44 064)	–	–	(44 064)	–	(44 064)
Equity compensation benefit scheme shares vested	12 044	–	(11 741)	303	(303)	–
Equity compensation benefit movement	–	–	15 590	15 590	332	15 922
Cash flow hedge	–	–	4 256	4 256	–	4 256
Dividends paid	–	–	–	–	(13 200)	(13 200)
Balance as at 30 November 2020	7 541 566	(2 002 903)	(2 742 108)	2 796 555	58 223	2 854 778

FINANCIAL PERFORMANCE (continued)

CONDENSED GROUP STATEMENT OF CASH FLOWS

For the six months ended	30 November 2020 Unaudited R'000	30 November 2019 Reviewed R'000
Cash flows from operating activities		
Cash generated by operations	**1 125 291**	390 152
Interest received	**27 530**	37 585
Interest paid	**(67 013)**	(113 551)
Taxation paid	**(115 638)**	(204 085)
Net cash generated from operating activities	**970 170**	110 101
Cash flows from investing activities		
Acquisition of intangible assets and property, plant and equipment	**(65 037)**	(89 061)
Liquidity support granted*	**(331 000)**	–
Loans (granted)/repaid	**(17 361)**	21 826
Loans (granted)/repaid to associates and joint ventures	**(1 839)**	9 264
Proceeds from disposal of joint venture	**190 555**	–
Other investing activities	**17 213**	8 725
Net cash utilised in investing activities	**(207 469)**	(49 246)
Cash flows from financing activities		
Proceeds from dilution of shares in subsidiary**	**–**	34 435
Borrowings raised	**5 010**	422 072
Acquisition of treasury shares***	**(44 064)**	–
Settlement of financial guarantee	**(62 047)**	–
Principal element of lease payments	**(31 317)**	(22 929)
Dividends paid to non-controlling interest	**(13 200)**	(57 977)
Net cash (utilised in)/generated from financing activities	**(145 618)**	375 601
Net increase in cash and cash equivalents	**617 083**	436 456
Cash and cash equivalents at the beginning of the period	**2 014 725**	1 377 753
Exchange gains on cash and cash equivalents	**–**	1 160
Cash and cash equivalents at the end of the period	**2 631 808**	1 815 369
Included in cash and cash equivalents per the statement of financial position	**2 631 808**	1 640 684
Included in the assets of the disposal group	**–**	174 685
	2 631 808	1 815 369

* This relates to the liquidity support given to SPV2. See note 7.

** 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 14.5 million shares were repurchased over the period 27 August 2020 to 31 August 2020 at a weighted average price of R3.06 per share.

FINANCIAL PERFORMANCE (continued)

NOTES TO THE FINANCIAL STATEMENTS

1. HEADLINE EARNINGS

	Total		Continuing operations		Discontinued operations	
For the six months ended	30 November 2020 Unaudited R'000	30 November 2019 Unaudited R'000	30 November 2020 Unaudited R'000	30 November 2019 Unaudited Restated* R'000	30 November 2020 Unaudited R'000	30 November 2019 Unaudited Restated* R'000
Profit/(loss) attributable to equity holders of the parent	**440 090**	314 839	**412 601**	377 537	**27 489**	(62 698)
Net profit on disposal of property, plant and equipment	**(672)**	(1 184)	**(332)**	(599)	**(340)**	(585)
Net loss/(profit) on disposal of intangible assets	**1 435**	(7 750)	**1 435**	(7 750)	**–**	–
Foreign currency translation reserve recycled to profit or loss	**(52 538)**	–	**(52 538)**	–	**–**	–
Net profit on sale of associates	**(24 965)**	–	**(24 965)**	–	**–**	–
(Subsequent reversal)/impairment of property, plant and equipment	**(2 284)**	2 322	**–**	2 322	**(2 284)**	–
Write down to fair value less cost to sell of disposal groups	**–**	53 232	**–**	–	**–**	53 232
Headline earnings	**361 066**	361 459	**336 201**	371 510	**24 865**	(10 051)
Headline earnings per share	**40.96**	39.98	**38.14**	41.10	**2.82**	(1.12)

*As a result of discontinued operations, the Group has restated their comparative financial information. Refer to note 8.

FINANCIAL PERFORMANCE (continued)

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. SHARE PERFORMANCE

	Total			
For the six months ended	30 November 2020 Unaudited R'000	30 November 2019 Unaudited R'000	30 November 2020 Unaudited R'000	30 November 2019 Unaudited R'000
Headline earnings per share	Attributable earnings	Attributable earnings	Cents per share	Cents per share
Basic	361 066	361 459	40.96	39.98
Diluted	361 066	361 459	39.25	33.69
Core	376 433	390 304	42.70	43.18
Earnings attributable to ordinary equity holders				
Basic	440 090	314 839	49.92	34.83
Diluted	440 090	314 839	47.85	34.35
Weighted average number of shares				
Weighted average number of ordinary shares	881 556 907	903 957 640		
Adjusted for forfeitable shares	38 295 663	8 485 122		
Weighted average number of ordinary shares for diluted earnings	919 852 570	912 442 762		
Number of shares in issue	913 655 873	913 655 873		
Number of shares in issue excluding treasury shares	874 781 449	892 205 135		
Reconciliation between profit/(loss) and core headline earnings for the period:				
Profit/(loss) for the period attributable to equity holders of the parent	440 090	314 839		
Amortisation on intangible assets raised through business combinations net of tax and net of non-controlling interest	15 367	28 844		
Core profit/(loss) for the period	455 457	343 683		
Headline earnings adjustments	(79 024)	46 621		
Core headline earnings	376 433	390 304		
Core headline earnings per share (cents)	42.70	43.18		

*As a result of discontinued operations, the Group has restated their comparative financial information. Refer to note 8.

FINANCIAL PERFORMANCE (continued)

NOTES TO THE FINANCIAL STATEMENTS (continued)

Continuing operations				Discontinued operations			
30 November 2020 Unaudited R'000	30 November 2019 Unaudited Restated* R'000	30 November 2020 Unaudited R'000	30 November 2019 Unaudited Restated* R'000	30 November 2020 Unaudited R'000	30 November 2019 Unaudited Restated* R'000	30 November 2020 Unaudited R'000	30 November 2019 Unaudited Restated* R'000
Attributable earnings	Attributable earnings	Cents per share	Cents per share	Attributable earnings	Attributable earnings	Cents per share	Cents per share
336 201	371 510	38.14	41.10	24 865	(10 051)	2.82	(1.12)
336 201	371 510	36.55	34.81	24 865	(10 051)	2.70	(1.12)
351 568	387 662	39.88	42.88	24 865	2 642	2.82	0.30
412 601	377 537	46.80	41.76	27 489	(62 698)	3.12	(6.93)
412 601	377 537	44.86	41.28	27 489	(62 698)	2.99	(6.93)
881 556 907	903 957 640			881 556 907	903 957 640		
38 295 663	8 485 122			38 295 663	8 485 122		
919 852 570	912 442 762			919 852 570	912 442 762		
913 655 873	913 655 873			913 655 873	913 655 873		
874 781 449	892 205 135			874 781 449	892 205 135		
412 601	377 537			27 489	(62 698)		
15 367	16 151			–	12 693		
427 968	393 688			27 489	(50 005)		
(76 400)	(6 027)			(2 624)	52 648		
351 568	387 661			24 865	2 643		
39.88	42.88			2.82	0.30		

FINANCIAL PERFORMANCE (continued)

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SEGMENTAL SUMMARY

Six months ended 30 November 2020	Total Unaudited R'000	Africa Distribution Unaudited R'000	International Unaudited R'000	Solutions Unaudited R'000	Corporate Unaudited R'000
Total segment revenue	13 667 036	13 489 243	–	91 740	86 053
Internal revenue	(4 085 014)	(3 996 437)	–	(2 524)	(86 053)
Revenue	9 582 022	9 492 806	–	89 216	–
Operating profit/(loss) before depreciation and amortisation	703 334	663 285	66 704	13 424	(40 079)
Profit/(loss) from continuing operations for the period attributable to equity holders of the parent	412 601	391 553	66 855	12 667	(58 474)
Profit for the period from discontinued operations attributable to equity holders of the parent*	27 489	27 489	–	–	–
Profit/(loss) for the period attributable to equity holders of the parent	440 090	419 042	66 855	12 667	(58 474)
Amortisation on intangibles raised through business combinations net of tax and non-controlling interest	15 367	15 367	–	–	–
Headline earnings adjustments net of non-controlling interest	(79 024)	(1 475)	(79 493)	–	1 944
Core headline earnings for the period attributable to equity holders of the parent	376 433	432 934	(12 638)	12 667	(56 530)

* All discontinued operations in the current period are accounted for in the Africa Distribution segment. Refer to the discontinued operations note 8.

Six months ended 30 November 2019	Total Unaudited Restated* R'000	Africa Distribution Unaudited Restated* R'000	International Unaudited R'000	Solutions Unaudited R'000	Corporate Unaudited R'000	Mobile Unaudited R'000
Total segment revenue	16 563 797	16 043 246	–	108 779	411 772	–
Internal revenue	(5 252 867)	(4 839 555)	–	(1 540)	(411 772)	–
Revenue	11 310 930	11 203 691	–	107 239	–	–
Operating profit/(loss) before depreciation and amortisation	748 582	788 469	372	23 855	(64 114)	–
Profit/(loss) from continuing operations for the period attributable to equity holders of the parent	377 537	428 378	42	23 199	(74 082)	–
(Loss)/profit for the period from discontinued operations attributable to equity holders of the parent	(62 698)	(61 900)	(2 615)	–	–	1 817
Profit/(loss) for the period attributable to equity holders of the parent	314 839	366 478	(2 573)	23 199	(74 082)	1 817
Amortisation on intangibles raised through business combinations net of tax and non-controlling interest	28 844	23 862	4 042	–	–	940
Headline earnings adjustments net of non-controlling interest	46 621	29 230	6 668	–	–	10 723
Core headline earnings for the period attributable to equity holders of the parent	390 304	419 570	8 137	23 199	(74 082)	13 480

* An entity that was previously disclosed within the Africa Distribution segment is accounted for as a discontinued operations and the comparative financial information for this segment has therefore been restated. Refer to note 8.

FINANCIAL PERFORMANCE (continued)

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. REVENUE

For the six months ended	Total		Africa Distribution		Solutions	
	30 November 2020 Unaudited R'000	30 November 2019 Unaudited Restated* R'000	30 November 2020 Unaudited R'000	30 November 2019 Unaudited Restated* R'000	30 November 2020 Unaudited R'000	30 November 2019 Unaudited R'000
Revenue from contracts with customers	**9 365 787**	11 112 117	**9 276 571**	11 004 878	**89 216**	107 239
Prepaid airtime, data and related revenue	**8 333 550**	10 098 270	**8 333 550**	10 098 270	**–**	–
Postpaid airtime, data and related revenue	**54 723**	65 105	**54 723**	65 105	**–**	–
Prepaid and postpaid SIM cards	**293 229**	353 113	**293 229**	353 113	**–**	–
Services	**174 365**	183 684	**85 149**	76 445	**89 216**	107 239
Electricity commission	**184 911**	187 227	**184 911**	187 227	**–**	–
Handsets, tablets and other devices	**186 271**	118 075	**186 271**	118 075	**–**	–
Other revenue	**138 738**	106 643	**138 738**	106 643	**–**	–
Finance revenue	**216 235**	198 813	**216 235**	198 813	**–**	–
	9 582 022	11 310 930	**9 492 806**	11 203 691	**89 216**	107 239

* A revenue-generating entity that was previously disclosed within the Africa Distribution segment is accounted for as a discontinued operation and is 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 8.

5. CELL C LIMITED

On 2 August 2017, Blue Label, through its wholly owned subsidiary, The Prepaid Company, acquired 45% of the issued share capital of Cell C Limited (Cell C) for a purchase consideration of R5.5 billion.

As at 31 May 2019, the Group's investment in Cell C was impaired to nil. It remains at nil as at 30 November 2020.

Critical accounting judgements and assumptions

Going concern of Cell C

For purposes of the Group's interim financial statements for the half-year ended 30 November 2020, 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.

Based on the following facts available, management is of the opinion that Cell C will continue as a going concern for the foreseeable future:

- Cell C concluded the national roaming agreement with MTN on 7 August 2019, which became effective on 4 May 2020. This agreement is one of the key pillars in Cell C's transformation plan as well as its long-term network strategy to optimise operating costs and reduce capital outlay as part of the turnaround strategy. This agreement is anticipated to positively impact the cost base and future cash flows on the successful implementation of this transaction.
- The board of Cell C established a liquidity committee to monitor the liquidity position of Cell C and to ensure that the business is not trading recklessly during the negotiations of the recapitalisation and debt restructure. Although the liquidity position of Cell C remains challenging, Cell C has proven that it has managed to continue trading despite the liquidity concerns and management is confident that this committee will manage the liquidity position of Cell C until the conclusion of the recapitalisation process.
- Cell C appointed independent financial restructuring advisers to assist in stringent monitoring of the liquidity of Cell C as well as designing the revised business plans that support the new operating business model.
- Management remains optimistic that the planned recapitalisation of Cell C will be successful. The recapitalisation is important to improve the capital structure of the company and the deferral of repayments that will support the long-term sustainability of Cell C. Stakeholders have appointed independent advisers to assist with the recapitalisation and/or debt restructuring process and formal engagements are ongoing.

FINANCIAL PERFORMANCE (continued)

NOTES TO THE FINANCIAL STATEMENTS (continued)

5. CELL C LIMITED (continued)

- A roaming agreement with Vodacom was concluded in November 2020 which is aligned to Cell C's revised network strategy, aimed at managing capacity in a more scalable and cost-efficient manner through a roaming model. Contract and broadband customers will be transitioned in stages to roam on the Vodacom network. The strategic vision is to differentiate Cell C by focusing on innovative products and services without being owners of capital intensive infrastructure. This creates more flexibility and capacity to deliver the right quality of service to our current and future customers.

Although no certainty exists around the successful implementation of the recapitalisation, management remains optimistic. Refer to the note 8 - Fair value of the contingent consideration receivable for the probability applied by management in determining Cell C's liquidity and solvency.

On 4 August 2020, Cell C notified its Noteholders that it defaulted on the payment of capital on its USD184 002 000 note which was due on 2 August 2020 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 were due in January and July 2020.

Currently, none of the bilateral loan facilities have been accelerated as 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.

Management and the directors have taken the default into consideration as part of their overall assessment of the going concern principle for Cell C and are of the view that the going concern assumption is still applicable. The default does not change any judgements or assumptions made in the financial assumptions that are dependent on the continuing operation of Cell C as a going concern.

Classification of Cell C Limited as an associate

Blue Label Telecoms acting through its wholly owned subsidiary, The Prepaid Company Proprietary Limited, acquired a 45% interest in Cell C Limited. The Group will be entitled to appoint four of the 11 directors to the Cell C board which will represent 36% of the overall votes of the board. Based on the Group's shareholding and representation on the board, management has assessed Cell C Limited to be an associate as the Group will have the power to participate in (but not control) the financial and operating policy decisions of Cell C Limited.

Impairment of Cell C

The Prepaid Company's share of the value-in-use of Cell C as at 30 November 2020 remained at nil value. The key assumptions applied in determining the value-in-use calculations are as follows:

	November 2020			May 2020		
	Average EBITDA margin %	Terminal growth rate %	Discount rate %	Average EBITDA margin %	Terminal growth rate %	Discount rate %
Cell C Limited	**21.6**	**4.0**	**20.6**	22.6	4.0	19.6

The valuation was performed in order to determine the value-in-use of Cell C based on cash flow projections incorporated in its five-year business plan. Assumptions that were applied by Cell C relate to the business, the industry and economic growth. Cash flows beyond this point were then extrapolated, applying a terminal growth rate. The discount rates presented are pre-tax and reflect specific risks relating to Cell C.

The value-in-use of Cell C as at 30 November 2020 based on the operational models, distribution and supplier agreements and capital structure of Cell C at that date remained at nil, even though impacted by certain positive factors, which however were insufficient to warrant an increase in the value beyond zero. These positive factors were as follows:

- an increase in cash of R322 million; and
- a net decrease in interest-bearing borrowings by R798 million, mainly due to the following:
  - foreign exchange gains on USD denominated loans resulting in a decline of approximately R550 million; and
  - a decrease in the airtime facility arrangement by approximately R380 million.

FINANCIAL PERFORMANCE (continued)

NOTES TO THE FINANCIAL STATEMENTS (continued)

5. CELL C LIMITED (continued)

Summarised financial information

Principal activity: Mobile network
Country of incorporation: South Africa
Financial year-end*: 31 December

	30 November 2020 R'000	30 November 2019 R'000
Statement of financial position		
Non-current assets	13 756 792	19 407 398
Current assets	6 130 552	5 363 408
	19 887 344	24 770 806
Total equity	(6 795 026)	(1 118 304)
Non-current liabilities	7 573 968	4 392 376
Current liabilities	19 108 402	21 496 734
	19 887 344	24 770 806
Effective percentage held (%)	45	45
Net assets	(6 795 026)	(1 118 304)
Company net assets	(14 094 956)	(8 418 234)
Carrying value of purchase price allocations net of deferred taxation	7 299 930	7 299 930
Interest in associate	(3 057 762)	(503 237)
Goodwill	1 317 776	1 317 776
Accumulated impairment	2 521 152	(2 521 152)
Losses not guaranteed	4 261 138	1 706 613
Balance at the end of the period	–	–

Statement of comprehensive income for the six months ended	30 November 2020 R'000	30 November 2019 R'000
Revenue	7 121 155	7 722 851
Net profit/(loss) before taxation	1 217 679	(3 792 474)
Taxation	–	–
Net profit/(loss) after taxation	1 217 679	(3 792 474)
Other comprehensive income	–	–
Not guaranteed	(1 217 679)	3 792 474
Total comprehensive income	–	–
Effective percentage held	45	45
Share of total comprehensive income	–	–

* Where the financial half-year-end differs from the Group's half-year-end of 30 November, special purpose accounts are prepared to coincide with the Group's reporting period.

FINANCIAL PERFORMANCE (continued)

NOTES TO THE FINANCIAL STATEMENTS (continued)

5. CELL C LIMITED (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 have been 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.

An extension was concluded on 31 May 2020 with an agreed quantum of airtime purchases required to be made by The Prepaid Company on a monthly basis. This will result in the Cell C facility reducing to nil by 31 March 2021. As at 30 November 2020, the above funding had declined to R578 million (May 2020: R959 million) as a result of BLT purchasing from the security airtime.

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. 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.

Management has performed detailed assessments considering seasonality of trading and has determined that, based on current inventory holdings and anticipated sales cycles, should circumstances dictate the need to purchase the above mentioned inventory from the consortium, acceleration of such payments could well result in the debt being expunged within two and a half months through its trading capabilities in the ordinary course of business at normal operating margins.

6. 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 determined by the expected credit loss (ECL) model 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 2020 Unaudited R'000	31 May 2020 Audited R'000
Opening balance	**201 474**	243 492
Foreign exchange movement	**(6 969)**	10 166
Additional liability raised during the year through profit or loss – continuing operations	**–**	671
Utilised during the year	**(53 797)**	(44 190)
Amounts released through profit or loss – continuing operations	**(8 250)**	(8 500)
Amounts released through profit or loss – discontinued operations	**–**	(165)
Closing carrying amount	**132 458**	201 474
Less: Amounts included in non-current portion of financial guarantee contracts	**–**	–
	132 458	201 474

Included in the opening balance above was a parent guarantee of USD5 million to the value R87.6 million, which was issued in favour of RBL Bank on behalf of Oxigen Services India Private Limited. During the six months ended 30 November 2020, USD3.25 million to the value of R53.8 million was paid in terms of a full and final settlement agreement with RBL Bank.

An amount of R105 million (May 2020: R113.2 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.

The Group has not raised a liability for its guarantee to the consortium of financial institutions in respect of Cell C's funding of R578 million (May 2020: R959 million) due to the fact that it holds sufficient collateral, which the Group expects to realise should the guarantee be called upon and the residual financial risk not be material.

FINANCIAL PERFORMANCE (continued)

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. 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 receivable R'000	Derivative liability R'000	Surety loan receivable R'000	Other R'000	Total R'000
Opening balance as at 1 June 2020	–	(350 410)	126 604	(77 524)	104 829	10 953	(185 548)
Additions	–	–	–	–	–	3 746	3 746
Repayments	–	331 000	–	–	–	(6 490)	324 510
Fair value gain/(loss) recognised in profit or loss	–	19 410	–	–	(12 263)	(6 938)	209
Closing balance as at 30 November 2020	–	–	126 604	(77 524)	92 566	1 271	142 917
Financial assets at fair value through profit or loss	–	–	126 604	–	92 566	8 996	228 166
Current	–	–	126 604	–	9 257	8 154	144 015
Non-current	–	–	–	–	83 309	842	84 151
Financial liabilities at fair value through profit or loss	–	–	–	(77 524)	–	(7 725)	(85 249)
Current	–	–	–	(77 524)	–	(7 725)	(85 249)
Non-current	–	–	–	–	–	–	–

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 was 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 was provided over 24 months 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 2020, the Group has contributed the full USD44 million to SPV2.

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 level 3 instruments in the fair value hierarchy.

The derivatives are not traded in an active market and therefore the fair value is determined by the use of a valuation technique. In previous years, the valuation was performed using a Monte Carlo simulation taking into account the value of Cell C Limited. As no value was subsequently attributed to Cell C, the recoverable value relating to SPV1 and SPV2 reduced to zero. A liability of USD20 million, in line with the liquidity support obligation to SPV2 and included in financial liabilities at "fair value through profit and loss" was payable as at 31 May 2020 and has since been settled by a payment of R331 million, reducing the liability to zero. As at 30 November 2020, no value was attributed to Cell C Limited and as a result thereof, the value of SPV1 and SPV2 remains at zero.

FINANCIAL PERFORMANCE (continued)

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. FINANCIAL INSTRUMENTS (continued)

Loans at fair value

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

In terms of an agreement entered into between TPC and Glocell Proprietary Limited (Glocell) during the year ended 31 May 2019, Glocell pledged its 40% shareholding in Glocell Distribution to TPC in the event of Glocell defaulting on amounts owing to TPC. The right to enforce this pledge is currently not exercisable. This right only becomes exercisable once Glocell has settled its outstanding debt of R105 million (May 2020: R113.2 million) to Investec Bank Limited.

Glocell's ability to repay TPC 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 Glocell defaults on the loan, the only recourse the Group has is to the shares of Glocell Distribution held by Glocell. As such, the financial instrument has been classified and measured at fair value through profit or loss.

No fair value adjustment (May 2020: R75.7 million) of the R126.6 million (May 2020: R202 million) owing to TPC was required at 30 November 2020 due to markets remaining within expections since the prior valuation date. The prior year downward adjustment was required due to unfavourable trading conditions, with specific reference to starter packs, exacerbated by the impact of Covid-19 on Glocell Distribution's financial performance.

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.

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

Key assumption applied to value-in-use calculation

	30 November 2020 %	31 May 2020 %
Discount rate (pre-tax)	**20.4**	21.0
Terminal growth rate	**5.0**	4.5

		30 November 2020 R'000	31 May 2020 R'000
Effect on fair value due to change in key assumption	%	**(Decrease)/increase in loan at fair value**	
Change in discount rate	1	**(12 140)**	(12 147)
	(1)	**14 386**	14 414
Change in terminal growth rate	2	**22 081**	21 048
	(2)	**(15 758)**	(14 994)

Derivative liability

This relates to the put options for the acquisition of a 40% minority interest in Airvantage and AV Technology. Blue Label recognised a derivative instrument, taking the following into consideration:

- the value of the instrument fluctuates in response to a change in the fair value of Airvantage and AV Technology;
- no initial net investment was required; and
- the put option may be exercised by the 40% minority shareholders during the 90-day period following signature of the 31 May 2020 audited results. The call option may be exercised by Blue Label for a period of 90 days after the put option expires.

FINANCIAL PERFORMANCE (continued)

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. FINANCIAL INSTRUMENTS (continued)

Derivative liability (continued)

The derivative financial instrument is measured at fair value through profit or loss. The amount at which the put and call options may be exercised is contractually determined based on the 31 May 2020 audited results at a 6 x net profit after tax multiple. Should the exercise price not represent the fair value of the underlying shares, an element of the derivative instrument would have value and as such would be recognised in Blue Label's financial statements. The determination of the extent to which the exercise price does not represent the fair value of the underlying shares involved significant management judgement. For further information in this regard, refer to Critical accounting judgement and assumptions on the following page.

Critical accounting judgement and assumptions

As explained under the Derivative liability heading, significant management judgement was applied in determining the extent that the exercise price does not represent the fair value of the underlying shares. The amount at which the put and call options may be exercised is contractually determined based on the 31 May 2020 audited results at a 6 x net profit after tax multiple. This formula has been used in determining the total value of the put option liability. As the VAS Operations disposal group (which included Airvantage and AV Technology) was sold at a similar net profit after tax multiple, the multiple is deemed to be representitive of a fair market multiple to be used in calculating the value of the shares. However, management has taken into account 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. Therefore the derivative has been measured at the difference between the fair value of Airvantage and the exercise price of the put option. Accordingly, these inputs are level 3 inputs per the fair value hierarchy. The same facts and circumstances were taken into account in this critical accounting judgement as were taken into account in the Cell C note 5, with management concluding the following:

Total value of Airvantage put option liability on 30 November 2020 (A)	158 213
Attributed probability percentage of the solvency and liquidity of Cell C remaining unproven (B)	49%
Extent that the exercise price does not represent the fair value of the underlying shares (A x B)	**77 524**

Should management have attributed a 100% probability to the solvency and liquidity of Cell C being proven, the entire put option would have been considered to be at value and as such no liability would have been recognised. Conversely, should management have attributed a 0% probability to the solvency and liquidity of Cell C being proven, the entirety of the portion of the put option related to Airvantage would have been considered to not be at value and as such a liability of R158 million would have been recognised. The put option over the shares of AV Technology is considered to be at fair value as the operations and results of the entity upon which the valuation is based have remained largely unchanged and 6 x net profit multiple is consistent with the earnings multiple at which the shares in the entity have been disposed of.

Surety loans receivable

Surety loans relate to the personal sureties that B Levy and M Levy signed for the loan owed by 2DFine Holdings Mauritius to Gold Label Investments Proprietary Limited. Their liability is limited to the difference between the loan owing to Gold Label Investments Proprietary Limited and the value of 16.95% of the shares in Oxigen Services India Private Limited (Oxigen Services) and 17.29% of the shares in Oxigen Online Services India Private Limited (Oxigen Online) and as such is a level 3 instrument in the fair value hierarchy. In the previous year payment terms for the surety loans were renegotiated, with the payments being agreed as instalments payable annually commencing on 30 September 2021 and ending on 30 September 2030. In the 2019 financial year the loan owing to Gold Label Investments Proprietary Limited was impaired due to a decrease in the fair value of Oxigen Services and Oxigen Online resulting in the Group recognising a receivable on the surety claim.

FINANCIAL PERFORMANCE (continued)

NOTES TO THE FINANCIAL STATEMENTS (continued)

8. DISCONTINUED OPERATIONS

Accounting policy

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

Closure of WiConnect

While management had implemented a turnaround strategy at WiConnect (a fully owned subsidiary of the Group), which incorporated the strengthening of the retail management team, a refocus of product sales as well as negotiating additional rebates from the network operators and original equipment manufacturers, Covid-19 had a significant negative impact on the retail operations of WiConnect. These included increased costs of inventories as a result of a weaker rand, periods of non-trading as a result of the nationwide lockdown and consumers foregoing discretionary purchases. Given the uncertainty of the tenure of the pandemic and the resultant losses attributable thereto impacting on its financial feasibility, a decision was made on 11 May 2020 to cease the operations of the WiConnect retail stores.

Significant management judgement was applied in determining whether WiConnect is a discontinued operation by assessing whether it had effectively been ceased to be used or abandoned by year-end and also whether it represented a separate major line of business or geographical area of operations or was part of a single plan to dispose of a separate major line of business or geographical area of operations. For further information regarding management's considerations in concluding that WiConnect was a discontinued operation please refer to the information under Critical accounting judgements and assumptions.

Management believes that the above assessment is still applicable for the six-month period ended 30 November 2020. The costs incurred and revenues earned post year-end have all been elements of the shutting down of the WiConnect operations. Management has negotiated terms with substantially all landlords resulting in significant savings on lease liability costs which were accounted for as modifications to the lease terms. These modifications have been recorded in the "Profit from discontinued operation" line item within the condensed Group statement of comprehensive income. Management is in the process of collecting outstanding debt owed to WiConnect from its trade receivables and in settling trade and other sundry creditors.

3G Mobile and VAS Operations disposals

On 25 September 2019, the Group announced it had entered into an agreement to dispose of its 85% shareholding in Blue Label Mobile Group Proprietary Limited as well as its 51% shareholding in Simigenix Proprietary Limited and Panacea Proprietary Limited (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 Group Proprietary Limited has disbursed towards the acquisition of 50% of Hyve as at the transaction closing date. Of the purchase consideration of R450 million, R100 million (bearing interest at prime overdraft rates plus 2% per annum compounded on a monthly basis) is contingent upon the solvency and liquidity status of Cell C being proven. There is no set date by which this needs to be proven and the consideration would only have to be proven once. Should the solvency and liquidity never be proven successfully, then the R100 million contingent purchase price and the interest accrued thereon will be forfeited by BLT, but in lieu thereof, BLM will transfer 24% of the issued share capital of Airvantage and AV Technology to BLT. Prior to the effective date of the disposal of the VAS Operations, Simigenix and Panacea were sold on loan account to Blue Label Mobile Group Proprietary Limited.

Furthermore, the Group announced that it would 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) and would distribute its shares in Comm Equipment Company (CEC) and 3G's loan account claim against CEC to its shareholder, TPC, prior to the effective date of the disposal. The associated assets and liabilities of the VAS Operations and 3G Mobile disposal groups were consequently presented as held-for-sale in the reviewed results for the half-year ended 30 November 2019.

The 3G Mobile and VAS Operations were sold with effect from 14 February 2020 and 30 April 2020 respectively.

FINANCIAL PERFORMANCE (continued)

NOTES TO THE FINANCIAL STATEMENTS (continued)

8. DISCONTINUED OPERATIONS (continued)

Financial performance of discontinued operations

	WiConnect six months ended 30 November 2020 Unaudited R'000	Total six months ended 30 November 2020 Unaudited R'000
Revenue and other incomes	42 793	42 793
Expenses	(12 748)	(12 748)
Profit before taxation	30 045	30 045
Taxation	(2 556)	(2 556)
Profit after taxation of discontinued operations	27 489	27 489
Exchange differences on translation of discontinued operations	–	–
Other comprehensive profit/(loss) from discontinued operations	–	–
Total comprehensive income from discontinued operations	27 489	27 489
Profit for the period attributable to:	27 489	27 489
Equity holders of the parent	27 489	27 489
Non-controlling interest	–	–
Total comprehensive income for the period attributable to:	27 489	27 489
Equity holders of the parent	27 489	27 489
Non-controlling interest	–	–
Net cash inflow from ordinary activities	10 099	10 099
Net cash outflow from investing activities	(1 981)	(1 981)
Net cash flow from financing activities	–	–
Net increase in cash generated by the discontinued operations	8 118	8 118

FINANCIAL PERFORMANCE (continued)

NOTES TO THE FINANCIAL STATEMENTS (continued)

8. DISCONTINUED OPERATIONS (continued)

Financial performance of discontinued operations (continued)

	VAS Operations six months ended 30 November 2019 Reviewed R'000	3G Mobile six months ended 30 November 2019 Reviewed R'000	WiConnect six months ended 30 November 2019 Unaudited R'000#	Total six months ended 30 November 2019 Unaudited R'000
Revenue and other incomes	198 129	1 176 691	179 664	1 554 484
Expenses	(139 663)	(1 136 988)	(223 794)	(1 500 445)
Other losses*	(26 886)	(26 346)	–	(53 232)
Profit/(loss) before taxation	31 580	13 357	(44 130)	807
Taxation	(16 340)	(12 636)	(20 019)	(48 995)
Profit/(loss) after taxation of discontinued operations	15 240	721	(64 149)	(48 188)
Exchange differences on translation of discontinued operations	(531)	–	–	(531)
Other comprehensive loss from discontinued operations	(531)	–	–	(531)
Total comprehensive income/(loss) from discontinued operations	14 709	721	(64 149)	(48 719)
Profit/(loss) for the period attributable to:	15 240	721	(64 149)	(48 188)
Equity holders of the parent	730	721	(64 149)	(62 698)
Non-controlling interest	14 510	–	–	14 510
Total comprehensive income/(loss) for the period attributable to:	14 709	721	(64 149)	(48 719)
Equity holders of the parent	990	721	(64 149)	(62 438)
Non-controlling interest	13 719	–	–	13 719
Net cash inflow/(outflow) from ordinary activities	103 585	(10 882)	(5 839)	86 864
Net cash inflow/(outflow) from investing activities	6 845	99 720	(37 732)	68 833
Net cash outflow from financing activities	(39 631)	–	–	(39 631)
Net increase/(decrease) in cash generated by the discontinued operations	70 799	88 838	(43 571)	116 066

* In line with the requirements of IFRS 5, management had 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 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.

WiConnect was only classified as a discontinued operation from the period ended 31 May 2020. In line with the requirements of IFRS 5 paragraph 34, management has re-presented the disclosures required for discontinued operations for prior periods presented in the condensed consolidated financial statements so that the disclosures relate to all operations that have been discontinued by the end of the reporting period for the latest period presented.

FINANCIAL PERFORMANCE (continued)

NOTES TO THE FINANCIAL STATEMENTS (continued)

8. DISCONTINUED OPERATIONS (continued)

Critical accounting judgements and assumptions

WiConnect discontinued operations considerations

Paragraph 13 of IFRS 5 states that if a disposal group meets the discontinued operation criteria, the cash flows and results of the disposal group should be presented as discontinued operations at the date on which it ceases to be used. In considering whether the operations of WiConnect have "ceased to be used" management considered that as at year-end, and for some time prior, WiConnect's retail stores had ceased trading (even during the periods of the national lockdown where trading was permissible). Furthermore, all inventory had been transferred to a central warehouse, cash collected and swept from stores, and affected staff informed of their retrenchment. Additionally, all landlords to the WiConnect retail stores were also informed prior to year-end of the intention to cease all operations. Therefore, while there were still run-off costs to be incurred and assets to be sold and scrapped, these were elements of the closing down of the WiConnect operations. Based on this, together with the fact that inventory had been written down to its net realisable value and sold to one buyer, it was management's contention that the operations were not ongoing and that the inflows and outflows which were still to occur didn't comprise an activity. Based on these facts and circumstances, management applied its judgement and concluded that the operations of WiConnect had "ceased to be used". Management believes that this assessment is still applicable.

Management applied further significant judgement in determining whether the operations of WiConnect met the discontinued operations criteria as at year-end. More specifically, management needed to consider whether WiConnect may have been classified as a separate major line of business. Under IFRS 8, reportable segments could comprise more than one business segment. Therefore, the fact that WiConnect doesn't form its own reportable segment (it is included in the Africa Distribution segment) didn't preclude it from being considered a major line of business. Executive management and chief operating decision-makers considered WiConnect to be a separate major line of business as a result of several considerations, namely that it was brick-and-mortar retail (or physical stores owned and operated by the Group) directly interacting with customers in the retail space through our own channels/stores selling hardware and other value-added services directly to consumers. This, coupled with the loss after tax of R318 million (which is considered to be material in the context of the overall Group results for the year ended 31 May 2020), led to management applying its judgement in concluding that WiConnect was a separate major line of business and consequently met the definition of a discontinued operation. Management believes that this assessment is still applicable.

Fair value of the contingent consideration receivable

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.

FINANCIAL PERFORMANCE (continued)

NOTES TO THE FINANCIAL STATEMENTS (continued)

8. DISCONTINUED OPERATIONS (continued)

Fair value of the contingent consideration receivable (continued)

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 Technology's 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 considered the following qualitative considerations:

- Cell C concluded the national roaming agreement on 7 August 2019, which became effective on 4 May 2020. This agreement is one of the key pillars in Cell C's transformation plan as well as its long-term network strategy to optimise operating costs and reduce capital outlay as part of the turnaround strategy. This agreement is anticipated to positively impact the cost base and future cash flows on the successful implementation of this transaction.
- 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.

9. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

	Six months ended 30 November 2020 Unaudited R'000	Six months ended 30 November 2019 Unaudited R'000	Year ended 31 May 2020 Audited R'000
Sales to related parties			
T3 Telecoms SA Proprietary Limited*	**1 469 472**	963	43 923
Cell C Proprietary Limited*	**1 015 039**	740 246	1 395 521
I Talk Holdings Proprietary Limited**	**12 661**	9 438	13 938
Purchases from related parties			
Cell C Proprietary Limited*	**1 400 244**	1 976 317	3 305 045
T3 Telecoms SA Proprietary Limited*	**–**	14 479	26 492
I Talk Holdings Proprietary Limited**	**14 194**	12 779	17 303
Finance revenue received from related parties			
Cell C Proprietary Limited*[1]	**48 237**	59 470	108 084
Dividends received from related parties			
I Talk Holdings Proprietary Limited**	**14 000**	3 500	5 000
Loans to related parties			
2DFine Holdings Mauritius*[#]	**218 879**	208 347	249 513
2DFine Investments Mauritius*[#]	**3 700**	3 209	4 082
Brett Levy	**46 283**	42 357	52 415
Mark Levy	**46 283**	42 357	52 415
Oxigen Services India Private Limited*[#]	**50 658**	47 031	57 248
T3 Telecoms SA Proprietary Limited*	**8 254**	–	9 053
I Talk Holdings Proprietary Limited**	**2 000**	7 500	2 000
Total loss allowance on loans to related parties	**(274 673)**	(271 469)	(315 985)

FINANCIAL PERFORMANCE (continued)

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)

	Six months ended 30 November 2020 Unaudited R'000	Six months ended 30 November 2019 Unaudited R'000	Year ended 31 May 2020 Audited R'000
Guarantees given to related parties			
Oxigen Services India Private Limited*	–	73 201	87 603
Lease liability due to related parties			
Ellerine Bros. Proprietary Limited	21 943	28 160	25 297
Moneyline 311 Proprietary Limited	21 943	28 160	25 297
Uvongo Falls No 26 Proprietary Limited	23 048	30 000	27 168
Amounts due from related parties included in trade receivables			
Cell C Proprietary Limited*	1 510 876	1 185 574	1 266 899
Total loss allowance on trade receivables to related parties	(8 801)	(9 357)	(10 995)
Amounts due to related parties included in trade payables			
Cell C Proprietary Limited*	69 175	940 011	488 917

* These entities are associates/joint ventures.

** United Call Centre Solutions Proprietary Limited changed to I Talk Holdings Proprietary Limited

[#] These loans have been fully provided for both in the current and prior years and are included as part of the total loss allowance on loans to related parties balance.

[1] Prior year amount has been adjusted to only show the interest on subsidy portion and not the interest on advances to customers, as advances to customers are not regarded as advances to Cell C, they are advances to Cell C's end users.

10. SUBSEQUENT EVENTS

Banking facilities

In February 2021, The Prepaid Company renegotiated a further extension of its Investec facility to 31 March 2022, whereby the facility will remain at R1.5 billion until the end of April 2021, at which date the exposure to Investec is required to be reduced by R50 million per month to 28 February 2022. The exposure to Investec is required to be no more than R1 billion as at 31 March 2022.

As at 30 November 2020 the Investec facility was disclosed as current borrowings, as the extension to 31 March 2022 was only granted in February 2021.

Airvantage and AV Technology put obligations

In October 2020, the minority shareholders of Airvantage Proprietary Limited ("Airvantage") and AV Technology Limited ("AV Tech") exercised their rights to put their 40% shareholding therein to Blue Label Telecoms ("BLT"), in line with the initial agreements that were concluded between the parties in 2017. The purchase consideration under the put options, as determined by the parties in December 2020, for the 40% shareholdings in Airvantage and AV Tech, amounted to R152 million and USD4.6 million respectively ("Purchase Price").

In February 2021, the parties concluded an agreement legislating for a deferral of the Purchase Price payable to the minority shareholders of Airvantage and AV Tech from 31 December 2020 to 31 March 2021, payable in six equal monthly instalments, inclusive of interest, commencing on 31 March 2021.

If Cell C Limited's board is able to pass a solvency and liquidity test, the primary obligation in respect of the put options can be transferred to Digital Ecosystems Proprietary Limited "(DE"), formerly Blue Label Mobile Proprietary Limited, in terms of the agreement concluded with it in September 2019.

A subsequent agreement has been reached between BLT and DE, whereby the parties agreed that BLT's primary obligations to the minority shareholders will be transferred to DE ahead of any Cell C test in respect of its solvency and liquidity.

A formal agreement legislating for the above will be concluded imminently. If, however, Cell C is unable to pass the solvency and liquidity test in the future, the primary obligation in respect of the put options may revert back to BLT.

FINANCIAL PERFORMANCE (continued)

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. BASIS OF PREPARATION

The condensed unaudited consolidated interim financial statements are prepared in accordance with International Financial Reporting Standards, 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.

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 2020 have not been reviewed or audited.

ADMINISTRATION

Directors
LM Nestadt (Chairman)*, BM Levy, MS Levy, K Ellerine**, GD Harlow*, NP Mnxasana*, JS Mthimunye*, DA Suntup, J Vilakazi*, PL Zim*

*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)

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JSE share code
BLU

ISIN
ZAE000109088
(Blue Label or BLT or the Company or the Group)

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