BLUE LABEL
TELECOMS

CONNECTING OUR WORLD TO YOURS

Unaudited results for the six months ended 30 November 2021

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WINNING BUSINESS FOR 20 YEARS

Financial highlights and salient features

Revenue of
R9.1 billion*

Increase in gross profit of
20% to **R1.36 billion**
(2020: R1.14 billion)

Increase in gross profit margin from
11.87% to **14.93%**

Net cash generated from operating activities of
R862 million

Interest-bearing borrowings reduced to
R1.97 billion
(30 November 2020: R2.32 billion)

Headline earnings of
60.86 cents per share
(2020: 40.96 cents per share)

Core headline earnings of
62.69 cents per share**
(2020: 42.70 cents per share)

* On inclusion of the gross amount generated on "PINless top-ups", prepaid electricity, ticketing and gaming, the effective increase equated to 12% from R32.4 billion to R36.2 billion.

** On exclusion of non-recurring income of R148 million in the current period and R22 million in the prior period, core headline earnings per share from continuing operations increased by 22% to 45.68 cents per share compared to 37.35 cents per share in the prior period.

Commentary

Group results

Core headline earnings for the period ended 30 November 2021 amounted to R549 million, of which R548 million related to continuing operations and R1 million to discontinued operations. Core headline earnings amounted of 62.69 cents per share.

In the comparative period, core headline earnings amounted to R376 million, of which R351 million related to continuing operations and R25 million to discontinued operations. Core headline earnings amounted to 42.70 cents per share.

On exclusion of the non-recurring income of R148 million in the current period and R22 million in the prior period, as illustrated in the underlying tables, core headline earnings from continuing operations increased by R71 million from R329 million to R400 million and core headline earnings per share from continuing operations increased by 22% from 37.35 cents per share in the prior period to 45.68 cents per share. This growth was indicative of a robust trading performance by the Group during the period under review.

The non-recurring income emanated from a fraudulent scheme, operating since 2015, which was perpetrated by two former senior key executives of a subsidiary company of the Group ("the subsidiary"). These fraudulent transactions were performed primarily outside the course and scope of the subsidiary's immediate field of commercial dealings, whereby the perpetrators interposed themselves between intermediary companies and the subsidiary for their own benefit. In addition, certain transactions were identified evidencing theft of funds from the subsidiary and the fraudulent concealment thereof. Once-off recoupment income, comprising the aggregate value of assets either realised by or signed-over to the Group as a result of the fraudulent scheme, amounted to R315 million. This income was partially offset by professional fees incurred, taxation and the non-controlling interest thereon totalling R167 million, resulting in a net recoupment of R148 million.

On exclusion of the non-recurring income in both the current and prior periods, earnings per share and headline earnings per share from continuing operations increased by 24% to 43.69 cents per share and 23% to 43.85 cents per share respectively.

The financial results of WiConnect in the current and prior periods of R1 million and R25 million respectively, are disclosed in core headline earnings from discontinued operations and are not included in the continuing operations' revenue, gross profit, earnings before interest, tax, depreciation and amortisation (EBITDA) and net profit after taxation.

Revenue generated by the continuing operations within the Group declined by 5% to R9.1 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 12% from R32.4 billion to R36.2 billion.

Gross profit increased by R223 million (20%) to R1.36 billion, congruent with an increase in margins from 11.87% to 14.93%.

Commentary continued

Group income statement

	Group November 2021 R'000	Extraneous income* November 2021 R'000	Remaining November 2021 R'000	Group November 2020 R'000	Extraneous income** November 2020 R'000	Remaining November 2020 R'000	Growth remaining R'000	Growth remaining %
Revenue	**9 112 874**	–	9 112 874	9 582 022	–	9 582 022	(469 148)	(5)
Gross profit	**1 360 927**	–	1 360 927	1 137 650	–	1 137 650	223 277	20
Other income	**323 959**	315 132	8 827	93 212	85 830	7 382	1 445	20
EBITDA	**902 498**	278 118	624 380	703 334	101 839	601 495	22 885	4
Non-controlling interest	**(60 350)**	(52 167)	(8 183)	(26 911)	–	(26 911)	18 728	70
Net profit from continuing operations	**530 440**	147 923	382 517	412 605	101 839	310 766	71 751	23
Core headline earnings	**548 831**	148 934	399 897	376 433	47 211	329 222	70 675	21
– from continuing operations	**547 820**	147 923	399 897	351 568	22 346	329 222	70 675	21
– from discontinued operations	**1 011**	1 011	–	24 865	24 865	–	–	
Gross profit margin (%)	**14.93**		14.93	11.87		11.87		
EBITDA margin (%)	**9.90**		6.85	7.34		6.28		
Weighted average shares ('000)	**875 496**		875 496	881 557		881 557		
Share performance from continuing operations								
EPS (cents)	**60.59**		43.69	46.80		35.25	8.44	24
HEPS (cents)	**60.74**		43.85	38.14		35.60	8.25	23
Core HEPS (cents)	**62.57**		45.68	39.88		37.35	8.33	22

* The extraneous contributions to Group earnings in the current period were attributable to:
- Once-off recoupment income, comprising the aggregate value of assets either realised by or signed-over to the Group relating to the fraudulent scheme. This income was partially offset by professional fees incurred, taxation and the non-controlling interest thereon[1]; and
- Partial recoupment of losses by the Retail division as a result of the closure of the WiConnect stores[2].

	Extraneous income* November 2021 R'000	Once-offs[1] November 2021 R'000	WiConnect[2] November 2021 R'000
Other income	**315 132**	315 132	–
EBITDA	**278 118**	278 118	–
Non-controlling interest	**(52 167)**	(52 167)	–
Net profit from continuing operations	**147 923**	147 923	–
Core headline earnings	**148 934**	147 923	1 011
– from continuing operations	**147 923**	147 923	–
– from discontinued operations	**1 011**	–	1 011

Commentary continued

** The extraneous contributions to Group earnings in the prior period were attributable to:
- Realised foreign exchange gains on the USD20 million liquidity support provided to SPV2[3];
- Once-off income, including the disposal of the Group's interest in Blue Label Mexico[4]; and
- Partial recoupment of losses by the Retail division as a result of the closure of the WiConnect stores in the prior period[5].

	Extraneous income** November 2020 R'000	Fair value movements[3] November 2020 R'000	Once-offs[4] November 2020 R'000	WiConnect[5] November 2020 R'000
Other income	85 830	–	85 830	–
EBITDA	101 839	16 009	85 830	–
Net profit from continuing operations	101 839	16 009	85 830	–
Core headline earnings	47 211	16 009	6 337	24 865
– from continuing operations	22 346	16 009	6 337	–
– from discontinued operations	24 865	–	–	24 865

On exclusion of the R278 million relating to the non-recurring recoupment income net of professional fees incurred in the current period and R102 million in the prior period, EBITDA increased by R23 million from R601 million to R624 million.

As anticipated, the increase in overheads included costs of R25 million attributable to new learnership initiatives, whereby the benefit thereof is realised by way of income tax savings as a result of the section 12H allowances being claimed for such learnerships. Furthermore, additional headcount and expenditure incurred in order to enhance IT Infrastructure and the Group's analytic and product development capabilities primarily contributed to the limited increase in EBITDA.

The Group generated positive cash flows of R862 million from its operating activities for the period ended 30 November 2021.

SEGMENTAL REPORT
Africa Distribution

	November 2021 R'000	Extraneous income[1,2] November 2021 R'000	Remaining November 2021 R'000	November 2020 R'000	Extraneous income[3,5] November 2020 R'000	Remaining November 2020 R'000	Growth remaining R'000	Growth remaining %
Revenue	**8 986 965**	–	8 986 966	9 492 806	–	9 492 806	(505 840)	(5)
Gross profit	**1 330 473**	–	1 330 473	1 113 310	–	1 113 310	217 163	20
Other income	**320 511**	315 132	5 379	4 623	–	4 623	756	16
EBITDA	**941 934**	278 671	663 263	663 285	16 009	647 276	15 987	2
Non-controlling interest	**(56 661)**	(52 167)	(4 494)	(23 600)	–	(23 600)	19 106	81
Net profit from continuing operations	**578 271**	148 476	429 795	391 555	16 009	375 546	54 249	14
Core headline earnings	**596 722**	149 487	447 235	432 934	40 874	392 060	55 175	14
– from continuing operations	**595 711**	148 476	447 235	408 069	16 009	392 060	55 175	14
– from discontinued operations	**1 011**	1 011	–	24 865	24 865	–	–	
Gross profit margin (%)	**14.80**		14.80	11.73		11.73		
EBITDA margin (%)	**10.48**		7.38	6.99		6.82		

Refer to page 3 for footnotes 1, 2 and above for 3, 5.

Revenue generated by the continuing operations within this segment declined by 5% from R9.5 billion to R9.0 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 12% from R32.3 billion to R36.1 billion.

Commentary continued

The Group continues to increase market share and bolster its product and services mix to defend and grow its positions in the market. Gross revenue generated on "PINless top-ups" increased by R1.2 billion (14%) from R9.0 billion to R10.2 billion.

Net commissions earned on the distribution of prepaid electricity amounted to R177 million. Revenue generated on behalf of the utilities increased by 21% from R13.2 billion to R15.9 billion.

Gross profit increased by R217 million (20%) to R1.33 billion, congruent with an increase in margins from 11.73% to 14.80%.

EBITDA in the current period included the non-recurring recoupment income, net of professional fees incurred, of R279 million attributable to the fraudulent scheme. Non-recurring income in the prior period of R16 million pertained to foreign exchange gains on the USD20 million liquidity support provided to SPV2.

On exclusion of the non-recurring income in both the current and prior periods, and despite an anticipated increase in overheads of R56 million, EBITDA increased by R16 million (2%) from R647 million to R663 million.

Core headline earnings from continuing operations reflected non-recurring income of R148 million in the current period relating to the net recoupment as a result of the fraudulent scheme and R16 million in the prior period pertaining to the foreign exchange gains on the USD20 million SPV2 liquidity support.

On exclusion of the above non-recurring income in the current and prior periods, core headline earnings from continuing operations increased by R55 million (14%) from R392 million to R447 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 I Talk Holdings and an effective 37.5% in I Talk Financial Services (joint venture), both of which are outbound call centre operations.

As at 1 June 2021, the Group incorporated the following additional companies, namely, Blue Train, Blue Communications, One World Telecoms and I Talk2U.

	November 2021 R'000	November 2020 R'000	Growth R'000	Growth %
Revenue	**125 909**	89 216	36 693	41
Gross profit	**30 454**	24 340	6 114	25
EBITDA	**7 584**	13 424	(5 840)	(44)
Share of profits from associates and joint ventures	**7 953**	5 057	2 896	57
Core headline earnings	**18 424**	12 667	5 757	45
Gross profit margin (%)	**24.19**	27.28		
EBITDA margin (%)	**6.02**	15.05		

Escalating demand for aggregated data and lead generations resulted in an increase in revenue of 41% to R126 million.

Gross profit increased by R6 million (25%) from R24 million to R30 million, congruent with the increase in revenue albeit at lower margins from 27.28% to 24.19%.

Overheads increased by R11 million primarily attributable to new learnership initiatives, whereby the benefit thereof is realised by way of income tax savings as a result of the section 12H allowances being claimed for such learnerships. EBITDA declined by R6 million to R8 million.

Of the core headline earnings of R18.4 million, BLDS accounted for R11.7 million. I Talk Holdings and I Talk Financial Services generated earnings of R6.1 million, of which the Group's share amounted to R2.7 million. Blue Train generated earnings of R6.2 million, of which the Group's share amounted to R4 million.

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

Commentary continued

Corporate

	November 2021 R'000	November 2020 R'000	Extraneous income November 2020 R'000	Remaining November 2020 R'000	Growth remaining R'000	Growth remaining %
EBITDA	**(46 144)**	(40 079)	6 337	(46 416)	272	1
Net loss from continuing operations	**(65 465)**	(58 474)	6 337	(64 811)	(654)	(1)
Core headline earnings	**(65 519)**	(56 530)	6 337	(62 867)	(2 652)	(4)

On exclusion of the non-recurring income in the prior period of R6 million pertaining to foreign exchange movements, the negative contribution to Group core headline earnings increased by R3 million to R66 million.

Depreciation and amortisation

Depreciation, amortisation and impairment charges on continuing operations decreased by R3 million to R91 million. Of the latter amount, R32 million (2020: R32 million) pertained to depreciation on additional capital expenditure incurred during the year, R15 million (2020: R15 million) to depreciation raised in terms of IFRS 16 – *Leases*, R3 million (2020: R2 million) to impairments and R41 million (2020: R44 million) to the amortisation of intangible assets of which R22 million (2020: R22 million) emanated from purchase price allocations on historical acquisitions.

Net finance costs

Finance costs totalled R68 million, of which interest paid on borrowed funds amounted to R59 million and R3 million to the unwinding on the lease liability in terms of IFRS 16. On a comparative basis, finance costs amounted to R72 million, mainly comprising interest paid on borrowed funds of R64 million and R5 million on the unwinding on the lease liability.

Finance income totalled R36 million, of which R31 million was for interest received on cash resources and R2 million on loans granted. In the prior period, interest received on cash resources amounted to R24 million and interest on loans granted amounted to R1 million.

Statement of financial position

Total assets increased by R1.2 billion to R12.6 billion, of which non-current assets accounted for R0.3 billion and current assets for R0.9 billion.

Non-current assets included increases in intangible assets and goodwill of R387 million, investments in and loans to associates and joint ventures of R28 million, financial assets at fair value through profit and loss of R41 million and financial assets at fair value through other comprehensive income of R7 million. These increases were offset by decreases in advances to customers of R122 million, capital expenditure net of depreciation of R6 million, right-of-use assets of R9 million, deferred tax assets of R7 million and loans receivable of R3 million.

Of the net increase in intangible assets and goodwill of R387 million, additions to intangible assets amounted to R530 million offset by amortisation of R143 million. Of the total additions to intangible assets, R420 million relates to costs borne by the Group in terms of a subscription income sharing arrangement and R91 million to subscriber acquisition costs.

The net increase of R43.4 million in investments in and loans to associates and joint ventures comprised the Group's net share of profits totalling R9.6 million, acquisition of further shares in an associate of R17.7 million, net loan increases of R15.3 million and its share of the movements in the foreign currency translation reserve amounting to R1.5 million.

The material net increase in current assets included increases in trade and other receivables of R778 million, cash and cash equivalents of R525 million, non-current assets classified as held-for-sale of R34 million and inventory of R17 million, offset by decreases in advances to customers of R386 million and financial assets at fair value through profit and loss of R126 million.

Commentary continued

The stock turn from continuing operations equated to 23 days compared to 22 days for the financial year ended 31 May 2021.

The debtor's collection period increased to 73 days compared to 59 days for the financial year ended 31 May 2021. On exclusion of the trade debtors relating to CEC, the debtor's collection period increased to 29 days compared to 28 days for the financial year ended 31 May 2021.

Net profit attributable to equity holders amounted to R531 million, contributing to accumulated capital and reserves of R3.7 billion.

Current liabilities increased by R559 million, comprising an increase in trade and other payables of R449 million, borrowings of R130 million and tax liabilities of R87 million. This increase was offset by a decrease in financial guarantee contracts of R105 million. Average credit terms from continuing operations equated to 135 days compared to 116 days for the financial year ended 31 May 2021.

The decrease in financial guarantee contracts of R105 million was due to the settlement of an amount owing by Glocell Proprietary Limited to Investec Bank Limited that was guaranteed by Glocell Distribution Proprietary Limited, congruent with the buyout of the latter's non-controlling interest in the current period.

Statement of cash flows

Cash generated from trading operations totalled R954 million. Working capital movements comprised an increase in trade payables of R310 million and a decrease in advances to customers of R508 million, offset by an increase in trade receivables and inventory of R729 million and R16 million respectively. After incurring net finance costs and taxation, net cash generated from operating activities amounted to R862 million.

Net cash flows utilised in investing activities amounted to R454 million, primarily attributable to the cost of intangible assets of R405 million, capital expenditure of R32 million, the acquisition of associate shares of R5 million and net loans granted of R15 million. Of the R405 million invested in intangible assets, R385 million related to costs borne by the Group in terms of the subscription income sharing arrangement.

Cash flows generated from financing activities amounted to R117 million, of which R157 million related to the net increase in borrowings offset by R19 million to lease payments and R21 million to dividend payments to non-controlling interests.

Cash and cash equivalents accumulated to R2.9 billion at 30 November 2021.

Forfeitable share scheme

No forfeitable shares were awarded or vested to qualifying employees during the period under review, due to the Group being in a closed period in line with the cautionary announcement released on 26 August 2021. During the current period, 3 972 259 shares were forfeited.

In the prior period, 15 565 697 forfeitable shares were issued to qualifying employees, 682 748 shares vested and 983 768 shares were forfeited.

Subsequent events

Banking facilities

In February 2022, The Prepaid Company Proprietary Limited renegotiated a further extension of its Investec facility to 31 March 2023. The total facility amounting to R1.56 billion outstanding as at 30 November 2021 was reduced by R340 million to R1.22 billion to date. Thereafter, the exposure to Investec is required to be reduced by a further R30 million per month in order to reduce the maximum facility balance to R1.01 billion.

Airvantage and AV Technology put obligations

On 14 December 2021, Blue Label Telecoms Limited (BLT) concluded agreements with the 40% shareholders of each of AV Technologies Limited (Mauritius) and Airvantage Proprietary Limited (South Africa) (Airvantage) in terms of which the put options which they had against BLT were terminated.
On 15 December 2021, BLT concluded a put option agreement with Digital Ecosystems Proprietary Limited (formerly Blue Label Mobile Group) in terms of which the latter acquired the right to put up to 40% of the shares in Airvantage to BLT by no earlier than 15 December 2022 for a maximum amount of R110 million.
If Cell C Limited, through a Board resolution, passes a solvency and liquidity test prior to 15 December 2022 the put option will be terminated.

Commentary continued

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. The Board of Blue Label wishes to express its appreciation to its 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

23 February 2022

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

Financial performance

Condensed group statement of comprehensive income

For the six months ended	Note	30 November 2021 Unaudited R'000	30 November 2020 Unaudited R'000
Continuing operations			
Revenue		**8 914 291**	9 365 787
Finance revenue		**198 583**	216 235
Total revenue	4	**9 112 874**	9 582 022
Other income	11	**323 959**	93 213
Changes in inventories of finished goods		**(7 734 055)**	(8 412 569)
Finance costs incurred in the generation of revenue		**(17 892)**	(31 804)
Employee compensation and benefit expense		**(326 423)**	(285 271)
Depreciation and amortisation		**(90 657)**	(93 183)
Impairments and fair value (losses)/gains		**(149 036)**	39 970
Other expenses		**(306 928)**	(282 227)
Operating profit		**811 842**	610 151
Finance costs		**(68 290)**	(71 869)
Finance income		**35 542**	27 529
Share of profits from associates and joint ventures		**9 566**	1 017
Profit before taxation		**788 660**	566 828
Taxation		**(197 870)**	(127 317)
Profit from continuing operations for the period		**590 790**	439 511
Profit from discontinued operations	5	**1 011**	27 489
Profit for the period		**591 801**	467 000
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 income/(loss) of associates and joint ventures		**1 529**	(7 715)
Gain on hedging instruments reclassified to profit and loss		**2 958**	–
Other comprehensive income/(loss) for the period, net of tax		**4 487**	(60 253)
Total comprehensive income for the period		**596 288**	406 747
Profit for the period attributable to:		**591 801**	467 000
Equity holders of the parent		**531 451**	440 090
Non-controlling interest		**60 350**	26 910
Profit for the period attributable to equity holders of the parent arises from:		**531 451**	440 090
Continuing operations		**530 440**	412 601
Discontinued operations		**1 011**	27 489
Total comprehensive income for the period attributable to:		**596 288**	406 747
Equity holders of the parent		**535 938**	379 837
Non-controlling interest		**60 350**	26 910
Total comprehensive income for the period attributable to equity holders of the parent arises from:		**535 938**	379 837
Continuing operations		**534 927**	352 348
Discontinued operations		**1 011**	27 489
Earnings per share	2	**60.71**	49.92
Continuing operations		**60.59**	46.80
Discontinued operations		**0.12**	3.12
Diluted earnings per share	2	**58.61**	47.85
Continuing operations		**58.50**	44.86
Discontinued operations		**0.11**	2.99

Financial performance continued

Condensed group statement of financial position

As at	Note	30 November 2021 Unaudited R'000	31 May 2021 Audited R'000
ASSETS			
Non-current assets		**3 139 194**	2 821 283
Property, plant and equipment		**188 302**	194 193
Right-of-use assets		**49 753**	58 746
Intangible assets		**1 438 373**	1 051 627
Goodwill		**681 754**	681 754
Investments in and loans to associates and joint ventures		**91 229**	62 996
Loans receivable		**41 572**	44 232
Advances to customers		**448 639**	570 456
Financial assets at fair value through profit or loss	8	**116 836**	75 342
Financial assets at fair value through other comprehensive income		**14 354**	6 915
Deferred taxation assets		**68 382**	75 022
Current assets		**9 477 800**	8 629 196
Loans to associate		**30 537**	15 369
Inventories		**982 711**	965 946
Loans receivable		**26 957**	25 572
Trade and other receivables		**4 530 177**	3 752 019
Advances to customers		**855 998**	1 241 832
Financial asset at fair value through profit and loss	8	**18 230**	143 797
Current tax assets		**56 905**	67 336
Cash and cash equivalents		**2 942 490**	2 417 325
Non-current assets classified as held for sale	11	**33 795**	–
Total assets		**12 616 994**	11 450 479
EQUITY AND LIABILITIES			
Capital and reserves		**3 682 549**	3 233 348
Issued share capital and premium		**7 543 436**	7 543 436
Other reserves		**(2 882 857)**	(2 732 783)
Retained earnings		**(1 080 935)**	(1 612 386)
Total ordinary shareholders' equity		**3 579 644**	3 198 267
Non-controlling interest		**102 905**	35 081
Non-current liabilities		**395 603**	237 563
Deferred taxation liabilities		**231 010**	194 520
Non-current lease liability		**29 523**	40 265
Borrowings	6	**135 070**	2 778
Current liabilities		**8 538 842**	7 979 568
Trade and other payables		**6 501 641**	6 052 849
Lease liability		**32 591**	32 860
Financial guarantee contracts	7	**671**	105 621
Provisions		**150**	500
Financial liabilities at fair value through profit and loss	8	**68 178**	68 742
Current tax liabilities		**101 237**	14 504
Borrowings	6	**1 834 282**	1 704 374
Bank overdraft		**92**	118
Total equity and liabilities		**12 616 994**	11 450 479

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 2020	7 573 586	(2 442 993)	(2 689 960)	2 440 633	44 484	2 485 117
Profit for the year	–	830 607	–	830 607	47 409	878 016
Other comprehensive loss	–	–	(56 536)	(56 536)	–	(56 536)
Total comprehensive income/(loss)	–	830 607	(56 536)	774 071	47 409	821 480
Treasury shares purchased	(43 924)	–	–	(43 924)	–	(43 924)
Equity compensation benefit scheme shares vested	13 774	–	(13 471)	303	(303)	–
Equity compensation benefit movement	–	–	27 184	27 184	639	27 823
Dividends paid	–	–	–	–	(57 148)	(57 148)
Balance as at 31 May 2021	7 543 436	(1 612 386)	(2 732 783)	3 198 267	35 081	3 233 348

	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 2021	**7 543 436**	**(1 612 386)**	**(2 732 783)**	**3 198 267**	**35 081**	**3 233 348**
Profit for the period	**–**	**531 451**	**–**	**531 451**	**60 350**	**591 801**
Other comprehensive income	**–**	**–**	**4 487**	**4 487**	**–**	**4 487**
Total comprehensive income	**–**	**531 451**	**4 487**	**535 938**	**60 350**	**596 288**
Equity compensation benefit movement	**–**	**–**	**11 533**	**11 533**	**204**	**11 737**
Acquisition of non-controlling interest	**–**	**–**	**(166 094)**	**(166 094)**	**28 470**	**(137 624)**
Dividends paid	**–**	**–**	**–**	**–**	**(21 200)**	**(21 200)**
Balance as at 30 November 2021	**7 543 436**	**(1 080 935)**	**(2 882 857)**	**3 579 644**	**102 905**	**3 682 549**

Financial performance continued

Condensed group statement of cash flows

For the six months ended	Note	30 November 2021 Unaudited R'000	30 November 2020 Unaudited R'000
Cash flows from operating activities			
Cash generated by operations		**953 746**	1 125 291
Interest received		**35 542**	27 530
Interest paid		**(68 384)**	(67 013)
Taxation paid		**(59 117)**	(115 638)
Net cash generated from operating activities		**861 787**	970 170
Cash flows from investing activities			
Acquisition of intangible assets and property, plant and equipment*		**(436 656)**	(65 037)
Liquidity support granted		**–**	(331 000)
Loans repaid/(granted)		**295**	(17 361)
Loans granted to associates and joint ventures		**(15 303)**	(1 839)
Acquisition of shares in associate		**(5 340)**	–
Proceeds from disposal of joint venture		**–**	190 555
Other investing activities		**3 252**	17 213
Net cash utilised in investing activities		**(453 752)**	(207 469)
Cash flows from financing activities			
Borrowings raised	6	**157 250**	5 010
Acquisition of treasury shares**		**–**	(44 064)
Settlement of financial guarantee		**–**	(62 047)
Principal element of lease payments		**(18 894)**	(31 317)
Dividends paid to non-controlling interest		**(21 200)**	(13 200)
Net cash generated from/(utilised in) financing activities		**117 156**	(145 618)
Net increase in cash and cash equivalents		**525 191**	617 083
Cash and cash equivalents at the beginning of the period		**2 417 207**	2 014 725
Cash and cash equivalents at the end of the period		**2 942 398**	2 631 808

* Acquisitions of intangible assets in the current period include significant cash outflows of R385 million relating to the subscription income sharing arrangement that commenced during the 2021 financial year.

** 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	
	30 November 2021 Unaudited R'000	30 November 2020 Unaudited R'000	**30 November 2021 Unaudited R'000**	30 November 2020 Unaudited R'000	**30 November 2021 Unaudited R'000**	30 November 2020 Unaudited R'000
Profit attributable to equity holders of the parent	**531 451**	440 090	**530 440**	412 601	**1 011**	27 489
Net profit on disposal of property, plant and equipment	**(244)**	(672)	**(244)**	(332)	**–**	(340)
Net (profit)/loss on disposal of intangible assets	**(270)**	1 435	**(270)**	1 435	**–**	–
Impairment/(impairment reversal) of property, plant and equipment	**1 887**	(2 284)	**1 887**	–	**–**	(2 284)
Foreign currency translation reserve recycled to profit or loss	**–**	(52 538)	**–**	(52 538)	**–**	–
Net profit on sale of associates	**–**	(24 965)	**–**	(24 965)	**–**	–
Headline earnings	**532 824**	361 066	**531 813**	336 201	**1 011**	24 865
Headline earnings per share	**60.86**	40.96	**60.74**	38.14	**0.12**	2.82

Financial performance continued

Notes to the financial statements continued

2. Share performance

	Total			
	30 November 2021 Unaudited R'000	30 November 2020 Unaudited R'000	**30 November 2021 Unaudited R'000**	30 November 2020 Unaudited R'000
Headline earnings per share	**Attributable earnings**	Attributable earnings	**Cents per share**	Cents per share
Basic	**532 824**	361 066	**60.86**	40.96
Diluted	**532 824**	361 066	**58.76**	39.25
Core	**548 831**	376 433	**62.69**	42.70
Earnings attributable to ordinary equity holders				
Basic	**531 451**	440 090	**60.71**	49.92
Diluted	**531 451**	440 090	**58.61**	47.85
Weighted average number of shares				
Weighted average number of ordinary shares	**875 496 083**	881 556 907		
Adjusted for forfeitable shares	**31 243 614**	38 295 663		
Weighted average number of ordinary shares for diluted earnings	**906 739 697**	919 852 570		
Number of shares in issue	**913 655 873**	913 655 873		
Number of shares in issue excluding treasury shares	**876 453 719**	874 781 449		
Reconciliation between profit and core headline earnings for the period:				
Profit for the period attributable to equity holders of the parent	**531 451**	440 090		
Amortisation on intangible assets raised through business combinations net of tax and net of non-controlling interest	**16 007**	15 367		
Core profit for the period	**547 458**	455 457		
Headline earnings adjustments	**1 373**	(79 024)		
Core headline earnings	**548 831**	376 433		
Core headline earnings per share (cents)	**62.69**	42.70		

Financial performance continued

Notes to the financial statements continued

Continuing operations				Discontinued operations			
30 November 2021 Unaudited R'000	30 November 2020 Unaudited R'000	**30 November 2021 Unaudited R'000**	30 November 2020 Unaudited R'000	**30 November 2021 Unaudited R'000**	30 November 2020 Unaudited R'000	**30 November 2021 Unaudited R'000**	30 November 2020 Unaudited R'000
Attributable earnings	Attributable earnings	**Cents per share**	Cents per share	**Attributable earnings**	Attributable earnings	**Cents per share**	Cents per share
531 813	336 201	**60.74**	38.14	**1 011**	24 865	**0.12**	2.82
531 813	336 201	**58.65**	36.55	**1 011**	24 865	**0.11**	2.70
547 820	351 568	**62.57**	39.88	**1 011**	24 865	**0.12**	2.82
530 440	412 601	**60.59**	46.80	**1 011**	27 489	**0.12**	3.12
530 440	412 601	**58.50**	44.86	**1 011**	27 489	**0.11**	2.99
875 496 083	881 556 907			**875 496 083**	881 556 907		
31 243 614	38 295 663			**31 243 614**	38 295 663		
906 739 697	919 852 570			**906 739 697**	919 852 570		
913 655 873	913 655 873			**913 655 873**	913 655 873		
876 453 719	874 781 449			**876 453 719**	874 781 449		
530 440	412 601			**1 011**	27 489		
16 007	15 367			**–**	–		
546 447	427 968			**1 011**	27 489		
1 373	(76 400)			**–**	(2 624)		
547 820	351 568			**1 011**	24 865		
62.57	39.88			**0.12**	2.82		

Financial performance continued

Notes to the financial statements continued

3. Segmental summary

	Total Unaudited R'000	Africa Distribution Unaudited R'000	International Unaudited R'000	Solutions Unaudited R'000	Corporate Unaudited R'000
Total segment revenue	**12 617 920**	**12 326 227**	**–**	**126 460**	**165 233**
Internal revenue	**(3 505 046)**	**(3 339 262)**	**–**	**(551)**	**(165 233)**
Revenue	**9 112 874**	**8 986 965**	**–**	**125 909**	**–**
Operating profit/(loss) before depreciation and amortisation	**902 499**	**941 935**	**(876)**	**7 584**	**(46 144)**
Profit/(loss) from continuing operations for the period attributable to equity holders of the parent	**530 440**	**578 271**	**(796)**	**18 430**	**(65 465)**
Profit for the period from discontinued operations attributable to equity holders of the parent	**1 011**	**1 011**	**–**	**–**	**–**
Profit/(loss) for the period attributable to equity holders of the parent	**531 451**	**579 282**	**(796)**	**18 430**	**(65 465)**
Amortisation on intangibles raised through business combinations net of tax and non-controlling interest	**16 007**	**16 007**	**–**	**–**	**–**
Headline earnings adjustments net of non-controlling interest	**1 373**	**1 433**	**–**	**(6)**	**(54)**
Core headline earnings for the period attributable to equity holders of the parent	**548 831**	**596 722**	**(796)**	**18 424**	**(65 519)**

	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)

Financial performance continued

Notes to the financial statements continued

4. Revenue

	Total		Africa Distribution		Solutions	
	30 November 2021 Unaudited R'000	30 November 2020 Unaudited R'000	**30 November 2021 Unaudited R'000**	30 November 2020 Unaudited R'000	**30 November 2021 Unaudited R'000**	30 November 2020 Unaudited R'000
Revenue from contracts with customers	**8 627 886**	9 365 787	**8 501 977**	9 276 571	**125 909**	89 216
Prepaid airtime, data and related revenue	**7 595 115**	8 333 550	**7 595 115**	8 333 550	**–**	–
Postpaid airtime, data and related revenue	**45 696**	54 723	**45 696**	54 723	**–**	–
Prepaid and postpaid SIM cards	**258 042**	293 229	**258 042**	293 229	**–**	–
Services	**200 132**	174 365	**74 223**	85 149	**125 909**	89 216
Electricity commission	**177 066**	184 911	**177 066**	184 911	**–**	–
Handsets, tablets and other devices	**154 966**	186 271	**154 966**	186 271	**–**	–
Other revenue	**196 869**	138 738	**196 869**	138 738	**–**	–
Subscription income share	**286 405**	–	**286 405**	–	**–**	–
Revenue	**8 914 291**	9 365 787	**8 788 382**	9 276 571	**125 909**	89 216
Finance revenue	**198 583**	216 235	**198 583**	216 235	**–**	–
Total revenue	**9 112 874**	9 582 022	**8 986 965**	9 492 806	**125 909**	89 216

5. 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 wholly 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 31 May 2020 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 2021. The costs incurred and revenues earned post the 31 May 2020 year-end have all been elements of the winding down of the WiConnect operations. Management has negotiated terms with substantially all landlords resulting in significant savings on lease liability costs that 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.

Financial performance continued

Notes to the financial statements continued

5. Discontinued operations continued

Financial performance of discontinued operations

	WiConnect six months ended 30 November 2021 Unaudited R'000	WiConnect six months ended 30 November 2020 Unaudited R'000
Revenue and other incomes	**1 501**	42 793
Expenses	**(98)**	(12 748)
Profit before taxation	**1 403**	30 045
Taxation	**(392)**	(2 556)
Profit after taxation of discontinued operations	**1 011**	27 489
Exchange differences on translation of discontinued operations	**–**	–
Other comprehensive loss from discontinued operations	**–**	–
Total comprehensive income from discontinued operations	**1 011**	27 489
Profit for the period attributable to:	**1 011**	27 489
Equity holders of the parent	**1 011**	27 489
Non-controlling interest	**–**	–
Total comprehensive income for the period attributable to:	**1 011**	27 489
Equity holders of the parent	**1 011**	27 489
Non-controlling interest	**–**	–
Net cash inflow from ordinary activities	**150**	10 099
Net cash outflow from investing activities	**–**	(1 981)
Net increase in cash generated by the discontinued operations	**150**	8 118

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 transferred 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 did not 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.

Financial performance continued

Notes to the financial statements continued

5. Discontinued operations continued

Critical accounting judgements and assumptions continued

WiConnect discontinued operations considerations continued

Management applied further significant judgement in determining whether the operations of WiConnect met the discontinued operations criteria as at 31 May 2020. 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 does not form its own reportable segment (it is included in the Africa Distribution segment) did not 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.

6. Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, when the relevant contracts are entered into. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method.

Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expired.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after period end.

	30 November 2021 Unaudited R'000	31 May 2021 Audited R'000
Interest-bearing borrowings	**1 968 633**	1 706 163
Non-interest-bearing borrowings	**719**	989
	1 969 352	1 707 152
Less: Amounts included in current portion of borrowings	**(1 834 282)**	(1 704 374)
Non-current portion of borrowings	**135 070**	2 778

The table below details the facilities drawn upon at 30 November 2021.

			Facility utilised	
Facility	**Investec**	**Africa Bank**	**30 November 2021 Unaudited R'000**	31 May 2021 Audited R'000
Mezzanine facility	**100%**	**–**	**–**	410 532
Facility A	**100%**	**–**	**1 465 851**	1 292 637
Africa Bank*	**–**	**100%**	**500 000**	–
			1 965 851	1 703 169

* CEC has access to a total facility of R1.9 billion with Africa Bank, of which R500 million was drawn down as at 30 November 2021. The security provided on the R500 million comprised the outstanding value of handset receivables totalling R1.35 billion and a parent guarantee of R250 million provided by BLT. Interest is charged at 11.05% fixed and the borrowing is repayable over 24 months.

The Group did not default on any loans or breach any terms of the underlying agreements during the period.

Financial performance continued

Notes to the financial statements continued

6. Borrowings continued

Changes in liabilities arising from financing activities

	Borrowings due within one year R'000	Borrowings due after one year R'000	Total R'000
Opening balance – 1 June 2020	2 316 383	2 778	2 319 161
Acquisition of subsidiary	726	–	726
Non-interest-bearing borrowings raised	270	–	270
Non-interest-bearing borrowings repaid	(13 959)	–	(13 959)
Interest-bearing borrowings repaid	(751 053)	–	(751 053)
Interest-bearing borrowings raised	152 007	–	152 007
Closing balance – 31 May 2021	1 704 374	2 778	1 707 152
Interest-bearing-borrowings raised through the acquisition of non-controlling interest (refer to note 7)	**104 950**	**–**	**104 950**
Non-interest-bearing borrowings repaid	**(270)**	**–**	**(270)**
Interest-bearing borrowings repaid	**(368 155)**	**–**	**(368 155)**
Interest-bearing borrowings raised	**393 383**	**132 292**	**525 675**
Closing balance – 30 November 2021	**1 834 282**	**135 070**	**1 969 352**

7. 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.

	30 November 2021 Unaudited R'000	31 May 2021 Audited R'000
Opening balance	**105 621**	201 474
Foreign exchange movement	**–**	(9 113)
Used during the year	**–**	(53 285)
Extinguishment of guarantee contract through the acquisition of non-controlling interest*	**(104 950)**	–
Amounts released through profit or loss – continuing operations	**–**	(33 455)
Closing carrying amount	**671**	105 621
Less: Amounts included in non-current portion of financial guarantee contracts	**–**	–
	671	105 621

* On 29 June 2021, The Prepaid Company Proprietary Limited (TPC) acquired the remaining 52% shareholding in Glocell Distribution Proprietary Limited (Glocell). As part of the purchase arrangement, TPC assumed Glocell's obligation of R105 million to Investec Bank Limited. Refer to note 6.

The Group has not raised a liability for its guarantee to the consortium of financial institutions in respect of Cell C's funding of R30.6 million (May 2021: R182 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

8. Financial instruments

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

	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 2021	126 604	(68 178)	83 713	8 258	150 397
Additions	49 524	–	–	750	50 274
Repayments	–	–	–	(7 875)	(7 875)
Conversion to equity	(126 604)	–	–	–	(126 604)
Fair value gains recognised in profit or loss	133	–	–	563	696
Closing balance as at 30 November 2021	49 657	(68 178)	83 713	1 696	66 888
Financial assets at fair value through profit or loss	49 657	–	83 713	1 696	135 066
Current	8 163	–	8 371	1 696	18 230
Non-current	41 494	–	75 342	–	116 836
Financial liabilities at fair value through profit or loss	–	(68 178)	–	–	(68 178)
Current	–	(68 178)	–	–	(68 178)
Non-current	–	–	–	–	–

Loans at fair value

The Prepaid Company Proprietary Limited (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.

On 29 June 2021, TPC acquired the remaining 52% shareholding in Glocell Distribution for a total purchase consideration of R137 million, of which R126 million was discharged by way of a conversion of the loan at fair value owing by Glocell to TPC.

As part of the fraud recoupment (refer note 11), the Group acquired the right to a loan made to a third party. The loan is for R73 million, bears interest at prime (30 November 2021: 7.25%) and is repayable in full by 30 June 2026. Only interest is payable up to 30 June 2022 and thereafter interest and capital are payable. In addition to the interest payments required, the borrower has the right to pay R10 million capital by 1 July 2022 in return for a R14 million reduction (ie. a R4 million discount) in the capital amount of the loan. It is the Group's view that this term results in the contractual cash flows failing to meet the requirements for amortised cost accounting, causing the right to the loan to be measured at fair value through profit or loss. The fair value of the right to the loan reflects a market-related interest rate of prime plus 5% and credit risk-adjusted expected cash flows.

Financial performance continued

Notes to the financial statements continued

8. Financial instruments continued

Derivative liability

This relates to the put options for the acquisition of a 40% minority interest in Airvantage and AV Technology. There have been no changes to the facts and circumstances related to the liability for the six months ended 30 November 2021. Refer to note 12 for details on the amendment to the terms of this agreement.

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). In the 2020 financial year the 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.

9. Significant related party transactions and balances

	Six months ended 30 November 2021 Unaudited R'000	Six months ended 30 November 2020 Unaudited R'000	Year ended 31 May 2021 Audited R'000
Sales to related parties			
T3 Telecoms SA Proprietary Limited*	**2 054 917**	1 469 472	3 394 108
Cell C Proprietary Limited*	**1 047 730**	1 015 039	1 729 573
I Talk Holdings Proprietary Limited*	**11 774**	12 661	23 756
Purchases from related parties			
Cell C Proprietary Limited*	**2 483 678**	1 400 244	4 275 098
T3 Telecoms SA Proprietary Limited*	**6 760**	—	14 154
I Talk Holdings Proprietary Limited*	**8 164**	14 194	12 935
Finance revenue received from related parties			
Cell C Proprietary Limited*	**47 426**	48 237	95 951
Dividends received from related parties			
I Talk Holdings Proprietary Limited*	**–**	14 000	5 000
Loans to related parties			
2DFine Holdings Mauritius*#	**214 674**	218 879	196 513
2DFine Investments Mauritius*#	**3 943**	3 700	3 318
Brett Levy	**41 857**	46 283	45 908
Mark Levy	**41 857**	46 283	41 857
Oxigen Services India Private Limited*#	**54 105**	50 658	41 857
T3 Telecoms SA Proprietary Limited*	**14 735**	8 254	15 016
I Talk Holdings Proprietary Limited*	**21 900**	2 000	2 000
Total loss allowance on loans to related parties	**(275 478)**	(274 673)	(247 992)
Lease liability due to related parties			
Ellerine Bros. Proprietary Limited	**14 343**	21 943	18 419
Moneyline 311 Proprietary Limited	**14 343**	21 943	18 419
Uvongo Falls No 26 Proprietary Limited	**14 723**	23 048	18 859
Amounts due from related parties included in trade receivables			
Cell C Proprietary Limited*	**2 122 181**	1 510 876	1 677 193
Total loss allowance on trade receivables to related parties	**(10 263)**	(8 801)	(10 931)
Amounts due to related parties included in trade payables			
Cell C Proprietary Limited*	**767 353**	69 175	456 902

* These entities are associates/joint ventures.

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.

Financial performance continued

Notes to the financial statements continued

10. Cell C Limited

On 2 August 2017, Blue Label, through its wholly owned subsidiary, The Prepaid Company Proprietary Limited (TPC) 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 2021.

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 2021, 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.
- 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.
- Cell C embarked on a strategy to reconsider its current service offering, whereby Cell C identified the need to either wind down or restructure the service offering being provided to its postpaid mobile telecommunication business (the base). During the 2021 financial year, the Group, through its subsidiary CEC, entered into an arrangement with Cell C to facilitate Cell C's operation of the base. The agreement commenced on 1 November 2020 for an initial period of five years, with CEC having the right to renew for a further four years. CEC is entitled to receive a share of the subscription income generated by Cell C from a subset of postpaid subscribers that sign up, extend or upgrade their subscriptions with Cell C after 1 November 2020 (New and Upgrade subscribers) plus certain fixed and variable payments. Cell C will remain entitled to the subscription income of existing subscribers at 31 October 2020 for the remainder of the subscribers' contract and a share of the ongoing revenue of New and Upgrade subscribers. The aim of the reorganisation would be for the base to remain intact and grow in the future, and for Cell C to have limited downside risk on the base.

Financial performance continued

Notes to the financial statements continued

10. Cell C Limited continued

Critical accounting judgements and assumptions continued

Going concern of Cell C continued

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.

On 26 August 2021, TPC concluded a term sheet for an Airtime Purchase transaction with Investec Bank Limited, First Rand Bank Limited (acting through its Rand Merchant Bank division) and other financiers, the proceeds of which are intended to be utilised for the recapitalisation of Cell C. This arrangement was subject to the conclusion of all legal documentation and fulfilment of all conditions precedent under such legal documentation.

Although no certainty exists around the successful implementation of the recapitalisation, management remains optimistic.

Classification of Cell C Limited as an associate

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

TPC's share of the value-in-use of Cell C as at 30 November 2021 remained at nil value. 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 valuation does not take into account the effects of any planned future restructuring or recapitalisation.

Financial performance continued

Notes to the financial statements continued

10. Cell C Limited continued

Summarised financial information

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

	30 November 2021 R'000	31 May 2021 R'000
Statement of financial position		
Non-current assets	**13 693 399**	13 565 997
Current assets	**7 466 021**	6 228 984
	21 159 420	19 794 981
Total equity	**(6 392 031)**	(5 559 338)
Non-current liabilities	**5 636 332**	5 800 315
Current liabilities	**21 915 119**	19 554 004
	21 159 420	19 794 981
Effective percentage held (%)	**45**	45
Net assets	**(6 392 031)**	(5 559 338)
Company net assets	**(13 691 961)**	(12 859 268)
Carrying value of purchase price allocations net of deferred taxation	**7 299 930**	7 299 930
Interest in associate	**(2 876 414)**	(2 501 702)
Goodwill	**1 317 776**	1 317 776
Accumulated impairment	**(2 521 152)**	(2 521 152)
Accumulated losses not guaranteed	**4 079 790**	3 705 078
Balance at the end of the period	**–**	–

Financial performance continued

Notes to the financial statements continued

10. Cell C Limited continued

Statement of comprehensive income for the six months ended

	30 November 2021 R'000	30 November 2020 R'000
Revenue	**6 679 641**	7 121 155
Net (loss)/profit before taxation	**(832 694)**	1 217 679
Taxation	**–**	–
Net (loss)/profit after taxation	**(832 694)**	1 217 679
Other comprehensive income	**–**	–
Losses not guaranteed/(profits not recognised)**	**832 694**	(1 217 679)
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.

** The Group will resume recognising its share of the profits only after its share of the profits equals the share of accumulated losses not recognised.

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, TPC 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 TPC on a monthly basis. This would have resulted in the Cell C facility reducing to nil by 31 March 2021. As at 30 November 2021, the above funding had declined to R31 million (May 2021: R182 million) as a result of TPC purchasing from the security airtime.

It is the intention of TPC 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.

Financial performance continued

Notes to the financial statements continued

11. Fraud recoupment

The Group uncovered a fraudulent scheme, operating since 2015, which was perpetrated by two former senior key executives ("the perpetrators") of a subsidiary company ("the subsidiary"). These fraudulent transactions were performed primarily outside the course and scope of the subsidiary's immediate field of commercial dealings, whereby the perpetrators interposed themselves between intermediary companies and the subsidiary for their own benefit. In addition, certain transactions were identified evidencing theft of funds from the subsidiary and the fraudulent concealment thereof. Settlement agreements were signed with the perpetrators in late October 2021, in terms of which rights to all, but a few, assets of the perpetrators were signed-over to the Group. The Group holds Powers of Attorney over these assets. As of 31 October 2021, the aggregate value of assets either realised by or signed-over to the Group as a result of the fraudulent scheme, amounted to R315 million, which has been recognised as recoupment income within other income, and comprised the following:

	R'000
Rights to:	
Immovable property	**42 295**[1]
Loans made to third parties	**63 124**[2]
Unlisted shares	**13 100**[3]
Listed share portfolio	**750**[4]
Bank accounts	**191 527**[5]
Inventory	**448**
Other	**4 240**
	315 484

1 Rights to immovable property have been accounted for as rights to receive non-current assets and were recognised initially at their fair value using comparable market prices. As it is not the intention of the Group to acquire legal title to the properties or to keep the rights for the long term, the Group is actively marketing these properties and expects to realise them all within the next 12 months. Accordingly, the rights to receive immovable property have been classified as non-current assets held-for-sale and are presented as such under current assets on the statement of financial position. These rights are measured at the lower of the initial amount recognised and fair value less costs to sell. Since the perpetrators are required to bear the costs to sell, these have been assumed to be zero for the Group's measurement purposes. Properties to the value of R8.5 million were sold by 30 November 2021, resulting in the derecognition of the related right and the recognition of a receivable for the sale proceeds which are expected to be received within the next 12 months.

2 The right to a loan made to a third party with a carrying amount of R49.5 million has been accounted for as a financial asset at fair value through profit or loss. Early prepayment features resulted in the underlying loan failing the requirements for amortised cost accounting. Refer to note 8. The rights to the remaining loans receivable have been measured at amortised cost.

3 At about the time of the settlement agreement, an agreement was reached for the sale of certain unlisted shares owned by the perpetrators, the proceeds of which are payable to the Group within the next few months. Accordingly, the Group recognised a receivable for such proceeds, measured initially at fair value, which is subject to the Group's accounting policy for expected credit losses.

4 The right to the listed share portfolio has been accounted for as a financial asset at fair value through profit or loss based on quoted share prices.

5 Substantially all funds that were found to be held in bank accounts have been transferred to the Group's bank accounts.

Professional fees incurred relating to the fraud recoupment amounted to R36 million to the end of November 2021, and have been included in other expenses.

Subsequent to the fraud investigation and detailed review of the control environment and business processes within the subsidiary, management has implemented the necessary improvements relating to the existing control environment.

Financial performance continued

Notes to the financial statements continued

12. Subsequent events

Banking facilities

In February 2022, The Prepaid Company Proprietary Limited renegotiated a further extension of its Investec facility to 31 March 2023. The total facility amounting to R1.56 billion outstanding as at 30 November 2021 was reduced by R340 million to R1.22 billion to date. Thereafter, the exposure to Investec is required to be reduced by a further R30 million per month in order to reduce the maximum facility balance to R1.01 billion.

Airvantage and AV Technology put obligations

On 14 December 2021 Blue Label Telecoms Limited (BLT) concluded agreements with the 40% shareholders of each of AV Technologies Limited (Mauritius) and Airvantage Proprietary Limited (South Africa) in terms of which the put options which such vendors had against BLT were terminated. On 15 December 2021 BLT concluded a put option agreement with Digital Ecosystems Proprietary Limited (formerly Blue Label Mobile Group) in terms of which Digital Ecosystems acquired the right to put up to 40% of the shares in Airvantage Proprietary Limited (South Africa) to BLT no earlier than 15 December 2022 for a maximum amount of R110 million. If Cell C Limited, through a board resolution, passes a solvency and liquidity test prior to 15 December 2022, the put option will be terminated.

13. 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 2021 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*, L 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)

Notes

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