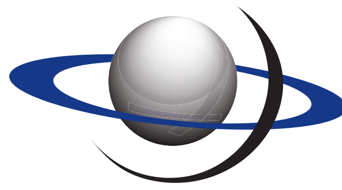

BLUE LABEL
TELECOMS

All roads lead
to BLU

Unaudited results for the half year ended 30 November 2018

REVENUE OF

R12.3 billion*

INCREASE IN GROSS PROFIT OF 15% TO

R1.31 billion

INCREASE IN GROSS PROFIT MARGIN FROM 8.37% TO

10.63%

CORE HEADLINE LOSS OF

11.39 cents per share**

* *On inclusion of the gross amount generated on "PINless top-ups", prepaid electricity and ticketing the effective increase equated to 7%.*

** *On exclusion of the financial results of Cell C and the negative impact of the SPV adjustments, core headline earnings per share from the balance of the entities within the Blue Label Group equated to 55.13 cents per share.*

Group

Unaudited	Group November 2018 R'000	Cell C November 2018 R'000	SPVs adjustment November 2018 R'000	Remaining entities November 2018 R'000
Revenue	**12 301 717**	–	–	12 301 717
Gross profit	**1 307 990**	–	–	1 307 990
EBITDA	**379 168**	–	(492 640)	871 808
Share of (losses)/profits from associates and joint ventures	**(138 038)**	(133 465)	–	(4 573)
– Cell C	**(133 465)**	(133 465)	–	–
– Blue Label Mexico	**(13 002)**	–	–	(13 002)
– Other	**8 429**	–	–	8 429
Net (loss)/profit	**(116 532)**	(133 465)	(492 640)	509 573
Core net (loss)/profit	**(82 874)**	(128 277)	(492 640)	538 043
Core headline earnings	**(105 394)**	(123 056)	(492 640)	510 302
Gross profit margin	**10.63%**			10.63%
EBITDA margin	**3.08%**			7.09%
Weighted average shares	**925 687 772**			925 687 772
EPS (cents)	**(12.59)**			55.05
HEPS (cents)	**(15.02)**			52.05
Core HEPS (cents)	**(11.39)**			55.13

Core headline earnings for the six months ended 30 November 2018 equated to a negative 11.39 cents per share, post a dilution resulting from the issue of additional shares to facilitate part-payment of the acquisitions of Cell C and 3G Mobile as well as the negative impact of the underlying factors expounded upon below.

The interim results for the comparative period ended 30 November 2017, incorporated the Group's share of profits in Cell C of R928 million, inclusive of the recognition of a deferred tax asset of R865 million. This was a once-off recognition to earnings in that period. During the current reporting period, the Group's share of losses in Cell C equated to R123 million. The negative movement to Group core headline earnings by Cell C amounted to R1.05 billion.

In terms of the restructure of Cell C's debt to third-party lenders, The Prepaid Company (TPC) was obligated to purchase bond notes issued by SPV1 with a capital redemption value of USD21 million at a coupon rate of 8.625% per annum for a purchase consideration of USD9 million and to provide liquidity support to SPV2 of up to USD80 million in the form of subordinated funding. Oger Telecoms contributed USD36 million of the aforesaid USD80 million, thus confining TPC's obligation in this regard to a maximum of USD44 million.

SPV1 and SPV2 own 11.8% and 16% of the shares issued by Cell C 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 once the value of Cell C's shares are realised by both SPV1 and SPV2. Blue Label has a reversionary pledge of 5% of the shares issued by Cell C relating to the Group's exposure in SPV2.

The derivatives were initially required to be recognised at fair value and thereafter to be measured at fair value through profit or loss. Although the valuation of Cell C as at 30 November 2018 of R13.4 billion was adequate to support the carrying value of the investment therein, it was not adequate enough to support the recoverability of the exposure to SPV1 and SPV2. As a result thereof, a fair value downward adjustment totalling R493 million, of which R47 million related to SPV1 and R446 million to SPV2, impacted negatively on core headline earnings. The remaining exposure to these derivatives is R121 million for SPV1 and R102 million for SPV2.

As illustrated in the table below, core headline earnings from the balance of the entities within the Blue Label Group increased by R80 million (19%) from R431 million to R510 million, equating to core headline earnings per share of 55.13 cents after the increase in the weighted average number of shares in issue from 806 million shares at 30 November 2017 to 926 million shares as at 30 November 2018.

	Group November 2017 R'000	Cell C November 2017 R'000	Remaining entities November 2017 R'000	Growth remaining entities R'000	Growth remaining entities %
	13 633 442	–	13 633 442	(1 331 725)	(10%)
	1 141 247	–	1 141 247	166 743	15%
	768 475	–	768 475	103 333	13%
	940 425	924 194	16 231	(20 804)	(128%)
	924 194	924 194	–	–	
	(10 511)	–	(10 511)	(2 491)	24%
	26 742	–	26 742	(18 313)	(68%)
	1 350 261	924 194	426 067	83 506	20%
	1 364 248	927 643	436 605	101 438	23%
	1 358 229	927 643	430 586	79 716	19%
	8.37%	–	8.37%		
	5.64%	–	5.64%		
	805 590 826		805 590 826		
	167.61		52.89	2.16	4%
	166.86		52.14	(0.09)	–
	168.60		53.45	1.68	3%

Group revenue declined by 10% to R12.3 billion. As only the gross profit earned on "PINless top-ups", prepaid electricity and ticketing are accounted for, on imputing the gross revenue generated thereon, the effective growth in revenue equated to 7%. The composition thereof was as follows:

Unaudited	November 2018 R'000	November 2017 R'000	Growth R'000	Growth %
Prepaid airtime, data and related revenue	**15 145 615**	16 341 414	(1 195 799)	(7%)
– Prepaid airtime and data	**9 651 183**	12 387 119	(2 735 936)	(22%)
– "PINless" airtime top-ups*	**5 494 432**	3 954 295	1 540 137	39%
Postpaid airtime, data and related revenue	**78 187**	54 028	24 159	45%
Prepaid and postpaid SIM cards	**603 092**	425 555	177 537	42%
Services	**331 717**	311 157	20 560	7%
Gross electricity revenue	**10 006 253**	8 360 543	1 645 710	20%
– Electricity commission	**190 470**	154 325	36 145	23%
– Gross electricity revenue*	**9 815 783**	8 206 218	1 609 565	20%
Handsets, tablets and other devices	**1 092 645**	239 233	853 412	357%
Finance revenue	**259 838**	–	259 838	
Gross ticketing revenue*	**323 768**	275 984	47 784	17%
Other revenue	**94 585**	62 025	32 560	52%
Gross revenue	**27 935 700**	26 069 939	1 865 761	7%
Less: imputed gross revenue(sum of*)	**(15 633 983)**	(12 436 497)	(3 197 486)	26%
Reported revenue	**12 301 717**	13 633 442	(1 331 725)	(10%)

The decline in prepaid airtime revenue, inclusive of gross revenue generated on "PINless top-ups" by 7%, was partly attributable to unfavourable market conditions and the reduction of low-margin yielding sales. This decline was offset by significant growth of 20% on prepaid electricity revenue generated on behalf of the utilities from R8.4 billion to R10 billion of which the commission earned thereon escalated by R25 million to R149 million. A further offset of R1.1 billion was attributable to revenue generated by 3G Mobile on handsets, tablets and other devices once it became a wholly owned subsidiary from December 2017.

The decline in EBITDA was entirely attributable to the fair value downward adjustment relating to SPV1 and SPV2. EBITDA generated by the remaining entities within the Group increased by 13% from R768 million to R872 million, underpinned by an increase in gross profit margins from 8.37% to 10.63%.

The Group's share of losses in Blue Label Mexico increased from R10 million to R13 million (24%) having sustained a decline in gross profit by R10 million.

The net asset value per share equated to R9.67 and earnings per share declined from 167.61 cents to a negative 12.59 cents per share ((108)%). On exclusion of the financial results of Cell C and the negative impact of the SPV adjustments, earnings per share from the balance of the entities within the Blue Label Group amounted to 55.05 cents per share.

Africa Distribution

	Unaudited November 2018 R'000	Unaudited November 2017 R'000	Growth R'000	Growth %	Audited May 2018 R'000
Revenue	**12 017 922**	13 357 831	(1 339 909)	(10%)	26 245 206
Gross profit	**1 166 307**	1 009 700	156 607	16%	2 014 169
EBITDA	**318 065**	732 048	(413 983)	(57%)	1 344 824
Share of (loss)/profit from associates and joint ventures	**(139 451)**	949 534	(1 088 985)	(115%)	583 122
– Cell C	**(133 465)**	924 194	(1 057 659)	–	562 567
– 3G Mobile	**–**	31 381	(31 381)	–	31 155
– Other	**(5 986)**	(6 041)	55	1%	(10 600)
Core net (loss)/profit	**(105 425)**	1 395 705	(1 501 130)	(108%)	1 385 494
Core headline earnings	**(127 791)**	1 394 892	(1 522 683)	(109%)	1 384 739
Gross profit margin	**9.70%**	7.56%			7.67%
EBITDA margin	**2.65%**	5.48%			5.12%

The composition of the above is expounded upon in the tables below, consisting of the financial results for the six month periods ended 30 November 2018, 30 November 2017 and 31 May 2018 respectively.

The comparison of these respective periods affords insight into the contributions to Group core headline earnings by 3G Mobile, Airvantage, Cell C and the historical remaining entities within this segment, as well as adjustments required outside the operational performance of the Africa Distribution segment.

Six month period ended 30 November 2018

Unaudited	November 2018 R'000	3G Group R'000	Airvantage R'000	Cell C R'000	SPVs adjustment November 2018 R'000	IFRS 9 adjustment R'000	Remaining entities R'000
Revenue	**12 017 922**	1 095 203	43 307	–	–	–	10 879 412
Gross profit	**1 166 307**	241 484	34 235	–	–	–	890 588
EBITDA	**318 065**	199 663	28 564	–	(492 640)	23 095	559 383
Share of losses from associates and joint ventures	**(139 451)**	–	–	(133 465)	–	–	(5 986)
– Cell C	**(133 465)**	–	–	(133 465)	–	–	–
– 3G Mobile	**–**	–	–	–	–	–	–
– Other	**(5 986)**	–	–	–	–	–	(5 986)
Core net (loss)/profit	**(105 425)**	144 264	10 081	(128 277)	(492 640)	23 886	337 261
Core headline earnings	**(127 791)**	144 264	10 076	(123 056)	(492 640)	23 886	309 679
Gross profit margin	**9.70%**	22.05%	79.05%				8.19%
EBITDA margin	**2.65%**	18.23%	65.96%				5.14%

Six month period ended 30 November 2017

Unaudited	November 2017 R'000	3G Group R'000	Airvantage R'000	Cell C R'000	Adjustment R'000	Remaining entities R'000
Revenue	**13 357 831**	–	–	–	–	13 357 831
Gross profit	**1 009 700**	–	–	–	–	1 009 700
EBITDA	**732 048**	–	–	–	–	732 048
Share of profits/(losses) from associates and joint ventures	**949 534**	31 381	–	924 194	–	(6 041)
– Cell C	**924 194**	–	–	924 194	–	–
– 3G Mobile	**31 381**	31 381	–	–	–	–
– Other	**(6 041)**	–	–	–	–	(6 041)
Core net profit	**1 395 705**	35 537	–	927 643	(21 194)	453 719
Core headline earnings	**1 394 892**	35 537	–	927 643	(21 194)	452 906
Gross profit margin	**7.56%**					7.56%
EBITDA margin	**5.48%**					5.48%

Six month period ended 31 May 2018

Unaudited	December 2017 – May 2018 R'000	3G Group R'000	Airvantage R'000	Cell C R'000	Adjustment R'000	Remaining entities R'000
Revenue	**12 887 375**	1 387 029	36 929	–	–	11 463 417
Gross profit	**1 004 469**	226 184	29 241	–	–	749 044
EBITDA	**612 776**	181 322	20 650	–	(2 629)	413 433
Share of losses from associates and joint ventures	**(366 412)**	(226)	–	(361 627)	–	(4 559)
– Cell C	**(361 627)**	–	–	(361 627)	–	–
– 3G Mobile	**(226)**	(226)	–	–	–	–
– Other	**(4 559)**	–	–	–	–	(4 559)
Core net profit	**(10 211)**	121 942	8 267	(356 429)	(67 772)	283 781
Core headline earnings	**(10 152)**	121 185	8 267	(358 168)	(67 772)	286 336
Gross profit margin	**7.79%**	16.31%	79.18%			6.53%
EBITDA margin	**4.75%**	13.07%	55.92%			3.61%

3G Mobile

Revenue generated for the six months to 30 November 2018 amounted to R1.1 billion, gross profit to R241 million at a margin of 22.05% and EBITDA to R200 million. Core net profit for the six months as a wholly owned subsidiary amounted to R144 million.

From the date of acquisition of 47.37% in August 2017 until 30 November 2017, its financial results for the four-month period were equity accounted for as an associate. Its core net profit during that period amounted to R75 million, of which the Group's share equated to R35 million. After the amortisation of intangible assets, its contribution as an associate amounted to R31 million.

On 6 December 2017 the remaining 52.67% of the company was acquired, at which date it became a wholly owned subsidiary. Revenue generated for the six months to 31 May 2018 amounted to R1.4 billion, gross profit to R226 million at a margin of 16.31% and EBITDA to R181 million. Its core net profit for the six months as a wholly owned subsidiary amounted to R122 million.

Airvantage

On 2 January 2018, Blue Label acquired 60% of Airvantage.

Revenue generated by it for the five months to 31 May 2018 amounted to R37 million, gross profit to R29 million at a margin of 79.18%, EBITDA to R21 million and NPAT to R14 million, of which the Group's share equated to R8.3 million.

Revenue generated for the six months to 30 November 2018 amounted to R43 million, gross profit to R34 million at a margin of 79.05%, EBITDA to R29 million and NPAT to R17.5 million. The Group's share thereof equated to R10.3 million.

Cell C

On 2 August 2017, TPC acquired a 45% shareholding in Cell C.

For the six months ended November 2018, Cell C's net loss amounted to R634 million. The Group's share thereof amounted to R285 million. Blue Label's accounting policies exclude equity-settled share-based payment charges from its associates and has not early adopted IFRS 16. Accordingly, an adjustment of R51 million and R106 million respectively was required. The net result was a negative contribution of R128 million to Blue Label's core earnings.

For the 10 months ended May 2018, Cell C's net profit amounted to R1.14 billion. This comprised trading losses of R782 million offset by the recognition of a deferred tax asset amounting to R1.92 billion. The Group's share of this net profit was R512 million. In line with Blue Label's accounting policies as above, an exclusion relating to equity-settled share-based payment charges from its associates and the reversal of the early adoption of IFRS 15 and IFRS16, resulted in a positive adjustment of R65 million and a negative adjustment of R6 million respectively. The net result was a positive contribution of R571 million to Blue Label's core earnings.

Adjustments

The adjustment of R493 million for the six months ended 30 November 2018 was attributable to the fair value downward adjustment relating to the non-recoverability of the exposure to SPV1 and SPV2.

Adjustments for the six months ended 30 November 2017 amounted to R21 million relating to once-off costs of imputed IFRS interest adjustments attributable to the acquisition of 3G Mobile.

Adjustments for the six months ended 31 May 2018 amounted to R68 million, of which R43.3 million was attributable to once-off costs of imputed IFRS interest adjustments for the acquisitions of 3G Mobile and Airvantage and R28.1 million to interest and costs relating to the 3G Mobile acquisition. These adjustments were partly offset by a derivative fair value gain of R3.7 million on financial instruments.

Remaining entities

Unaudited	H1 November 2018 R'000	H1 November 2017 R'000	H1 vs H1 Growth R'000	H1 vs H1 Growth %	H2 December 2017 – May 2018 R'000	H1 vs H2 Growth R'000	H1 vs H2 Growth %
Revenue	**10 879 412**	13 357 831	(2 478 419)	(19%)	**11 463 417**	(584 005)	(5%)
Gross profit	**890 588**	1 009 700	(119 112)	(12%)	**749 044**	141 544	19%
EBITDA	**559 383**	732 048	(172 665)	(24%)	**413 433**	145 950	35%
Share of losses from associates and joint ventures	**(5 986)**	(6 041)	55	1%	**(4 559)**	(1 427)	(31%)
Core net profit	**337 261**	453 719	(116 458)	(26%)	**283 781**	53 480	19%
Core headline earnings	**309 679**	452 906	(143 227)	(32%)	**286 336**	23 343	8%
Gross profit margin	**8.19%**	7.56%			**6.53%**		
EBITDA margin	**5.14%**	5.48%			**3.61%**		

Although there was a decline in core headline earnings from R453 million for the six months ended 30 November 2017 to R310 million for the current reporting period, the comparative period included rebates of R136 million post-taxation from Cell C. The recapitalisation of Cell C enabled Blue Label to reduce its inventory holding, and in turn to recognise the pre-existing rebates received from the sale of the inventory on a piecemeal basis over the course of that period.

Post the recapitalisation of Cell C, core headline earnings for the six months ended 31 May 2018 amounted to R286 million in comparison to the R310 million earned in the current reporting period, equating to a growth of 8%. This comparison illustrates the growth in earnings post the recognition of the pre-existing rebates that took place between August 2017 and November 2017.

Revenue declined by 19% from R13.4 billion to R10.9 billion, in that only the gross profit earned on "PINless top-ups", prepaid electricity and ticketing are accounted for. On imputing the gross revenue generated thereon, the effective growth in revenue equated to 3%.

The decline in prepaid airtime revenue, inclusive of gross revenue generated on "PINless top-ups" by 7%, was partly attributable to unfavourable market conditions and the reduction of low-margin yielding sales. This decline was offset by significant growth of 20% on prepaid electricity revenue generated on behalf of the utilities.

Net commissions earned on the distribution of prepaid electricity continued to increase, escalating by R25 million to R149 million (20%) on an increase in revenue generated on behalf of the utilities from R8.4 billion to R10 billion (20%).

Although gross profit declined from R1 billion for the six months ended 30 November 2017 to R891 million for the current reporting period, the comparative period included the recognition of pre-existing rebates at a pre-tax level of R188 million as expounded upon above, at a margin of 7.56%. Gross profit for the six months ended 31 May 2018 amounted to R749 million in comparison to the R891 million earned in the current reporting period, on margin increases from 6.53% to 8.19%.

The core headline earnings adjustment of R28 million for the six months ended 30 Nov 2018 was attributable to the fair value uplift relating to the acquisition of the remaining 60% of Lornanox Proprietary Limited, formerly trading as Edgars Connect and renamed WiConnect. As this fair value uplift is a headline earnings adjustment, it had no impact on core headline earnings.

International

	Unaudited November 2018 R'000	Unaudited November 2017 R'000	Growth R'000	Growth %	Audited May 2018 R'000
Revenue	**12 940**	–	12 940		–
Gross profit	**11 647**	–	11 647		–
EBITDA	**26 700**	22 203	4 497	20%	(2 903)
Gain on associate measured at fair value	**13 115**	716	12 399		(173 645)
Share of (losses)/profits from associates and joint ventures	**(13 002)**	(10 246)	(2 756)	(27%)	(21 647)
– Blue Label Mexico	**(13 002)**	(10 511)	(2 491)	(24%)	(21 900)
– Mpower	**–**	265	(265)		253
Non-controlling interest	**(3 780)**	(32 460)	28 680		(26 058)
Core net profit/(loss)	**22 258**	(16 714)	38 972	233%	(225 450)
Core headline profit/(loss)	**22 115**	(21 878)	43 993	201%	(230 614)

The composition of the above results for the six months ended November 2018, is expounded upon in the table below:

International

Unaudited	November 2018 R'000	Airvantage Brazil R'000	AV Technology R'000	Adjustment %	Remaining entities R'000
Revenue	**12 940**	–	12 940	–	–
Gross profit	**11 647**	–	11 647	–	–
EBITDA	**26 700**	3 025	9 864	(784)	14 595
Gain on associate measured at fair value	**13 115**	–	–	–	13 115
Share of losses from associates and joint ventures	**(13 002)**	–	–	–	(13 002)
– Blue Label Mexico	**(13 002)**	–	–	–	(13 002)
– Mpower	**–**	–	–	–	–
Non-controlling interest	**(3 780)**	(1 303)	(2 477)	–	–
Core net profit	**22 258**	1 709	5 490	(934)	15 993
Core headline profit	**22 115**	1 709	5 490	(934)	15 850

On 2 January 2018 Blue Label acquired 60% of the issued share capital of Airvantage Proprietary Limited for a purchase consideration of R151 million, inclusive of its 80% ownership in Airvantage Brazil.

On 1 August 2018, Blue Label acquired 60% of the issued share capital of AV Technology Limited for a purchase consideration of USD6.4 million (R84.2 million).

Consequently, in both of the above instances no comparatives existed for the six months ended November 2017.

The increase in EBITDA of R4.5 million was attributable to positive foreign exchange movements of R7 million, non-comparatives applicable to Airvantage Brazil and AV Technology amounting to R13 million, offset by loan releases of R16 million relating to the winding up process of the Africa Prepaid Services group in the comparative period.

Non-controlling interest of R3.8 million related to minority shareholders in both Airvantage Brazil and AV Technology. The R32 million in the comparative period related to the Africa Prepaid Services group for its share of the loan releases as a consequence of the winding up process therein.

Oxigen Services India and 2DFine

The investments in Oxigen Services India, Oxigen Online Services India and 2DFine group (collectively OSI) are accounted for as venture capital investments at fair value.

The change in fair value between 31 May 2018 and 30 Nov 2018 increased by R13 million, offset by a net loan impairment of R2 million. However, a further loan impairment of R13 million was accounted for in the corporate segment. The net overall impact on Group earnings amounted to a negative contribution of R2 million.

Blue Label Mexico

Losses in Blue Label Mexico increased from R20 million to R25 million, of which the Group's share amounted to R13 million after the amortisation of intangible assets. In the comparative year the Group's share of losses amounted to R10.5 million.

The increase in loss was attributable to a decline in revenue from R1.9 billion to R1.8 billion (5%), compounded by a decline in gross profit margins from 4.30% to 4.03%. In spite of containing overheads and a reduction in depreciation, the above resulted in the Group's share of losses increasing by R2.5 million.

In order to mitigate further losses, major rationalisation and restructure programmes were implemented with effect from December 2018. These measures should result in it becoming profitable.

Mobile

	Unaudited November 2018 R'000	Unaudited November 2017 R'000	Growth R'000	Growth %	Audited May 2018 R'000
Revenue	**165 439**	172 988	(7 549)	(4%)	359 970
Gross profit	**96 612**	97 873	(1 261)	(1%)	204 349
EBITDA	**48 580**	47 283	1 297	3%	101 883
Core net profit	**30 277**	27 548	2 729	10%	59 553
Core headline earnings	**30 266**	27 512	2 754	10%	59 679

This segment comprises Viamedia, Supa Pesa, Blue Label One, Cellfind, Panacea and Simigenix.

Although revenue declined by 4%, margin increases from 56.58% to 58.40% limited a decline in gross profit to 1%. EBITDA increased by 3% attributable to a reduction in overheads.

Contribution to Group core headline earnings increased by 10% to R30 million.

Solutions

	Unaudited November 2018 R'000	Unaudited November 2017 R'000	Growth R'000	Growth %	Audited May 2018 R'000
Revenue	**105 416**	102 623	2 793	3%	195 089
Gross profit	**33 425**	33 673	(248)	(1%)	63 574
EBITDA	**21 978**	24 442	(2 464)	(10%)	42 838
Share of (losses)/profits from associates and joint ventures	**13 852**	519	13 333	2 569%	4 579
Core net profit	**25 155**	13 715	11 440	83%	29 836
Core headline earnings	**25 155**	13 710	11 445	83%	29 814

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

The growth in revenue by 3% to R105 million was attributable to increased demand for aggregated data and lead generations. A marginal decline in gross profit margins from 32.81% to 31.71% resulted in a nominal movement in gross profit. After overhead increases of 12%, EBITDA equated to R22 million.

Of the core headline earnings of R25 million, BLDS accounted for R15 million. United Call Centre Solutions generated earnings of R27.5 million, of which BLDS's share amounted to R13.8 million. After accounting for minority shareholding of 19%, the Group's share thereof amounted to R11.2 million.

Corporate

	Unaudited November 2018 R'000	Unaudited November 2017 R'000	Growth R'000	Growth %	Audited May 2018 R'000
EBITDA	**(36 155)**	(57 501)	21 346	37%	(146 489)
Core net loss	**(55 139)**	(56 007)	868	2%	(211 464)
Core headline loss	**(55 139)**	(56 007)	868	2%	(211 602)

Of the decline in negative EBITDA of R22 million, R6 million pertained to a positive turnaround in foreign exchange movements and R17 million to a release of a portion of a put-option liability for the acquisition of the remaining 40% minority share of Airvantage SA and AV Technology Mauritius.

The negative contribution to Group core headline earnings declined by R1 million to R55 million, which losses included the loan impairment of R13 million pertaining to 2DFine resulting from the fair value adjustment in the Oxigen group and imputed IFRS interest adjustments of R7 million pertaining to the unwinding of the put-option liability.

Depreciation, amortisation and impairment charges

Depreciation, amortisation and impairment charges increased by R68 million to R128 million. Of this increase, R9.6 million pertained to depreciation on additional capital expenditure incurred during the year, impairments of R0.4 million and R42.8 million relating to the amortisation of intangible assets of which R38.8 million emanated from purchase price allocations on historical acquisitions, which increased from R8.1 million to R46.9 million. The remaining R15 million related to the impairment on the loans to 2DFine Holdings by R26.5 million, offset by an increase of R11.4 million in a surety asset raised.

Net finance costs

Finance costs totalled R119 million, of which R112 million related to interest paid on borrowed funds and R7 million to imputed IFRS interest adjustments. On a comparative basis, interest paid on borrowed funds amounted to R41 million and the imputed IFRS interest adjustment equated to R86 million. Of the latter amount, R65 million was attributable to credit received from suppliers and R21 million to the acquisition of 3G Mobile.

The increase of R71 million was attributable to additional borrowings utilised from existing facilities.

Finance income totalled R78 million, of which R77 million was attributable to interest received on cash resources and R1 million to imputed IFRS interest adjustments on credit afforded to customers. In the prior year, interest received on cash resources amounted to R68 million and the imputed IFRS interest adjustment to R1 million.

The increase of R10 million in interest received from cash resources related to an advance to Cell C for capital expenditure.

Statement of financial position

Total assets increased by R1.2 billion to R19.1 billion mainly due to the increase of non-current assets by R1 billion. Current assets increased by R0.2 billion.

Non-current assets included increases of R347million in intangible assets and goodwill, of R482 million in financial assets at fair value through profit or loss, R212 million in trade and other receivables, R67 million in capital expenditure net of depreciation, R44 million in deferred tax assets and R26 million in venture capital associates and joint ventures. These increases were offset by a net decrease of R183 million in investments in and loans to associates and joint ventures.

The net decrease of R183 million in investments in and loans to associate and joint venture companies comprised the Group's share of net losses totalling R138 million inclusive of the amortisation of applicable intangible assets, the step-up of Lornanox from an associate to a subsidiary which amounted to a net R52 million, dividends received of R4 million and a net negative impact of R14 million relating to the IFRS 9 impact on the loans to associates and joint ventures. These decreases were offset by a positive impact on foreign currency translation reserves of R14 million and net loans granted of R7 million.

Of the net increase in intangible assets and goodwill of R347 million, R255 million related to goodwill and R92 million to intangible assets. Of the goodwill increase, R158 million pertained to Glocell, R51 million to Airvantage Mauritius and R46 million to Lornanox. The increase in intangible assets related to purchase price allocations of R55 million raised in terms of IFRS 3 for Glocell and R78 million for Airvantage Mauritius, an additional R56 million expended on the purchase of software, internally generated software development costs and customer lists and a positive impact of foreign currency translation reserves of R5 million. These intangible increases were offset by amortisation of R97 million.

The net increase in venture capital associates and joint ventures of R26 million related to an increase of R13 million in the fair value of the investment in Oxigen Services India, offset by a loan impairment of R26 million. In addition there were unrealised foreign exchange profits on loans of R25 million and interest of R14 million capitalised thereon.

The increase of R482 million in a financial assets at fair value through profit or loss was due to a trade debtor of R361 million being reclassified into this category following the acquisition of 48% of Glocell Distribution. This was reflected in current assets in the prior period. The remaining R121 million related to the derivative asset on SPV1 which was classified in the prior period in current assets at a value of R168 million. The decrease of R47 million related to the fair value loss on this derivative. The reclassification from current to non-current assets was due to a change in the timing of the expected exit event.

Of the increase in current assets, material movements included increases in inventories of R752 million, in trade and other receivables of R711 million, offset by a repayment of a R1 billion loan granted to Cell C, other loans of R38 million and a decrease of R168 million in the financial assets at fair value through profit or loss.

The stock turn equated to 22 days compared to nine days for the financial year ended 31 May 2018. Bulk inventory purchase opportunities at favourable discount rates validated the consequent increase in inventory. The nature of the business enables it to reduce its inventory holdings below the above number of days at any given time.

The debtor's collection period increased to 95 days compared to 75 days for the financial year ended 31 May 2018. This increase in credit afforded was indicative of the impact of financing the handset element of 24-month postpaid contracts provided to the Cell C customer base by Comm Equipment Company Proprietary Limited (CEC), a wholly owned subsidiary of 3G Mobile. The debtor's collection period afforded through traditional trading averaged 52 days compared to 43 days for the financial year ended 31 May 2018.

Net loss attributable to equity holders of R117 million as well as a R115 million adjustment to the opening balance on initial application of IFRS 9 and IFRS 15, resulted in retained earnings accumulating to R4.1 billion.

Share capital and share premium decreased by R246 million congruent with the repurchase of 32.9 million shares at a weighted average price of R6.78 per share and the purchase of treasury shares amounting to R42 million, less R21 million of shares that vested.

Borrowings increased by R638 million, of which R290 million was applied by CEC for the financing of mobile handsets and R348 million utilised for working capital requirements.

Financial liabilities at fair value through profit or loss increased by R393 million due to the fair value loss on SPV2 of R446 million, offset by the liquidity support payment of R53 million (USD4 million) to SPV2.

Trade and other payables increased by R652 million, with average credit terms increasing to 85 days compared to 66 days for the financial year ended 31 May 2018.

Statement of cash flows

Negative cash generated from operating activities, amounting to R1.19 billion, was in line with increases in inventory by R715 million and accounts receivable by R1.3 billion, offset by additional credit of R457 million afforded to the Group by its suppliers.

The increase in inventory was attributable to bulk purchasing at favourable discounts. Although this resulted in a temporary increase in inventory holding days, being a highly liquid asset, such excess inventory of approximately R1.2 billion is capable of reduction within any given month. Of the increase in accounts receivable, R396 million pertained to the financing of the handset element of postpaid contracts over a 24-month period by CEC, of which R260 million was funded through the utilisation of facilities available to it. A further R142 million related to a prepayment to utilities for prepaid electricity, which was replaced by inventory one day post the reporting period due to timing differences.

Cash generated from operating activities on a normalised basis equated to a positive R409 million after adding back the excess inventories of R1.2 billion, the prepayment of R142 million and R260 million of the utilisation of facilities for the funding of handsets.

Cash flows generated from investing activities amounted to R847 million, mainly attributable to the R1 billion loan that was repaid by Cell C, offset by funds applied, net of cash acquired, to the acquisition of AV Technology amounting to R19 million. A further R53 million was granted for the liquidity support to SPV2, R54 million for the purchase of intangible assets and R57 million for capital expenditure.

Cash flows from financing activities amounted to R337 million, of which R633 million related to an increase in borrowings. After applying R224 million to the share buyback, R42 million to the acquisition of treasury shares and a dividend payment of R29 million to non-controlling interests, cash on hand at year-end amounted to R940 million.

Forfeitable share scheme

Forfeitable shares totalling 6 387 930 (2017: 1 888 961) were issued to qualifying employees. During the period 224 545 (2017: 174 418) shares were forfeited and 2 245 445 (2017: 2 432 743) shares vested.

Prospects

The route-to-market expansion by Blue Label Distribution into the rural areas and townships is expected to continue its momentum in the further deployment of vending outlets, affording customer convenience and significant savings in transport costs.

Starter pack sales which generate compounding monthly annuity revenue continue to grow in these rural and township localities.

The distribution of both high-end and affordable low-cost handsets continues to exceed expectations with further inroads into the wider Africa market.

Cell C has concluded a binding term sheet with the Buffet consortium in terms of which Buffet shall, subject to the fulfilment of certain conditions precedent, become a minority shareholder in Cell C. With Buffet's support the Cell C balance sheet will be bolstered and ensure Cell C's sustainable growth for the future.

Cell C financial information

Cell C's preliminary unaudited financial information for the year ended 31 December 2018 is available on the Company's website. (www.bluelabeltelecoms.co.za/ inv-latest-results.php.)

Appreciation

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

For and on behalf of the Board

LM Nestadt
Chairman

BM Levy and MS Levy
Joint Chief Executive Officers

DA Suntup* CA(SA)
Financial Director

28 February 2019

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

Unaudited condensed Group statement of financial position

As at	Note	30 November 2018 Unaudited R'000	30 November 2017 Unaudited Restated* R'000	31 May 2018 Audited R'000
ASSETS				
Non-current assets		**10 426 593**	9 589 037	9 404 315
Property, plant and equipment		**203 648**	112 501	137 120
Intangible assets		**1 168 684**	476 123	1 076 871
Goodwill		**1 291 529**	604 590	1 036 243
Investments in and loans to associates and joint ventures	4.2	**6 244 100**	7 666 388	6 398 305
Investments in and loans to venture capital associates and joint venture	4.1	**303 371**	567 487	277 835
Loans receivable		**52 865**	42 367	53 270
Financial assets at fair value through profit or loss	3	**481 868**	79 050	–
Trade and other receivables		**591 434**	23 238	379 448
Deferred taxation assets		**89 094**	17 293	45 223
Current assets		**8 747 135**	5 673 092	8 526 636
Inventories		**1 350 442**	1 267 436	597 946
Loan to associate		**–**	749 279	1 029 626
Loans receivable		**169 928**	112 941	207 799
Financial assets at fair value through profit or loss	3	**–**	–	168 144
Trade and other receivables		**6 242 626**	3 050 458	5 531 291
Current tax assets		**34 386**	21 775	43 942
Cash and cash equivalents		**949 753**	471 203	947 888
Total assets		**19 173 728**	15 262 129	17 930 951
EQUITY AND LIABILITIES				
Capital and reserves		**9 023 175**	9 026 790	9 506 642
Share capital, share premium and treasury shares		**7 598 999**	6 957 271	7 844 847
Restructuring reserve		**(1 843 912)**	(1 843 912)	(1 843 912)
Other reserves		**101 986**	115 795	84 662
Share-based payments		**32 107**	38 026	49 542
Transactions with non-controlling interest reserve		**(1 132 052)**	(975 302)	(1 069 268)
Retained earnings		**4 081 151**	4 640 491	4 283 854
		8 838 279	8 932 369	9 349 725
Non-controlling interest		**184 896**	94 421	156 917
Non-current liabilities		**2 091 596**	71 217	1 745 790
Deferred taxation liabilities		**274 094**	66 463	229 100
Borrowings		**1 804 250**	–	1 514 140
Trade and other payables		**13 252**	4 754	2 550
Current liabilities		**8 058 957**	6 164 122	6 678 519
Trade and other payables		**5 728 045**	6 073 592	5 086 196
Provisions		**42 522**	43 679	39 628
Financial liabilities at fair value through profit or loss	3	**437 947**	–	45 360
Current tax liabilities		**35 194**	44 913	50 367
Bank overdraft		**10 105**	–	–
Borrowings		**1 805 144**	1 938	1 456 968
Total equity and liabilities		**19 173 728**	15 262 129	17 930 951

* *As a result of the revised guidance in Circular 2/2017 the Group has restated its comparative financial information for changes in accounting policies. The effects of this change have already been taken into account in the reported May 2018 results.*

Unaudited condensed Group statement of comprehensive income

	Note	**Six months ended 30 November 2018 Unaudited R'000**	Six months ended 30 November 2017 Unaudited Restated* R'000	Year ended 31 May 2018 Audited R'000
Revenue	2	**12 301 717**	13 633 442	26 800 265
Other income		**104 502**	29 245	81 704
Changes in inventories of finished goods		**(10 993 726)**	(12 492 195)	(24 518 173)
Employee compensation and benefit expense		**(301 043)**	(225 883)	(524 187)
Depreciation, amortisation and impairment charges		**(128 441)**	(60 462)	(242 604)
Other expenses		**(732 282)**	(176 134)	(499 456)
Operating profit		**250 727**	708 013	1 097 549
Finance costs		**(118 819)**	(126 431)	(306 636)
Finance income		**78 491**	69 074	195 298
Gain/(loss) on associates and joint venture measured at fair value		**13 115**	716	(173 645)
Share of (losses)/profits from associates and joint ventures		**(138 038)**	940 425	565 812
Net profit before taxation		**85 476**	1 591 797	1 378 378
Taxation		**(183 071)**	(190 438)	(331 069)
Net (loss)/profit for the period		**(97 595)**	1 401 359	1 047 309
Other comprehensive income/(loss):				
Items reclassified to profit or loss				
Foreign currency translation reserve reclassified to profit or loss		**(143)**	(2 340)	(3 097)
Items that may be subsequently reclassified to profit or loss				
Share of other comprehensive income/(loss) of associates and joint ventures		**14 114**	11 138	(15 873)
Foreign exchange profit/(loss) on translation of foreign operations		**3 058**	(3)	(3 869)
Other comprehensive income/(loss) for the period, net of tax		**17 029**	8 795	(22 839)
Total comprehensive (loss)/income for the period		**(80 566)**	1 410 154	1 024 470
Net (loss)/profit for the period attributable to:		**(97 595)**	1 401 359	1 047 309
Equity holders of the parent		**(116 532)**	1 350 261	993 624
Non-controlling interest		**18 937**	51 098	53 685
Total comprehensive (loss)/income for the period attributable to:		**(80 566)**	1 410 154	1 024 470
Equity holders of the parent		**(99 208)**	1 359 020	971 250
Non-controlling interest		**18 642**	51 134	53 220

* *As a result of the revised guidance in Circular 2/2017 the Group has restated its comparative financial information for changes in accounting policies. The effects of this change have already been taken into account in the reported May 2018 results.*

Share performance

	Six months ended 30 November 2018 Unaudited R'000	Six months ended 30 November 2017 Unaudited Restated* R'000	Year ended 31 May 2018 Audited R'000
Earnings per share for profit attributable to equity holders			
Basic earnings per share (cents)	**(12.59)**	167.61	116.12
Diluted earnings per share (cents)**	**(10.76)**	149.83	108.10
Weighted average number of shares	**925 687 772**	805 590 826	855 686 588
Diluted weighted average number of shares	**931 144 868**	812 327 853	860 487 563
Number of shares in issue	**913 655 873**	874 509 041	946 509 041
Number of shares in issue excluding treasury shares	**904 201 467**	868 892 834	940 885 750
Share performance			
Headline earnings per share (cents)	**(15.02)**	166.86	115.42
Diluted headline earnings per share (cents)**	**(13.18)**	149.09	107.41
Dividend per share (cents)	**–**	40	40
Reconciliation between net (loss)/profit or core headline earnings for the period:			
Net (loss)/profit for the period attributable to equity holders of the parent	**(116 532)**	1 350 261	993 624
Amortisation on intangible assets raised through business combinations net of tax and net of non-controlling interest	**33 658**	13 987	44 345
Core net (loss)/profit for the period	**(82 874)**	1 364 248	1 037 969
Headline earnings adjustments	**(22 520)**	(6 019)	(5 953)
Core headline earnings	**(105 394)**	1 358 229	1 032 016
Core headline earnings per share (cents)***	**(11.39)**	168.60	120.61

* *As a result of the revised guidance in Circular 2/2017 the Group has restated its comparative financial information for a change in an accounting policy. The effects of this change have already been taken into account in the reported May 2018 results.*

** *Diluted earnings per share and diluted headline earnings per share are calculated by adjusting the earnings and headline earnings by the potential dilutive instruments within the Group as well as the weighted average number of ordinary shares outstanding for the number of shares that would be issued on vesting under the employee forfeitable share plan.*

*** *Core headline earnings per share is calculated after adding back to headline earnings the amortisation of intangible assets as a consequence of the purchase price allocations completed in terms of IFRS 3(R)* – Business Combinations.

Headline earnings

	Six months ended 30 November 2018 Unaudited R'000	Six months ended 30 November 2017 Unaudited Restated* R'000	Year ended 31 May 2018 Audited R'000
(Loss)/profit attributable to equity holders of the parent	**(116 532)**	1 350 261	993 624
Net profit on disposal of property, plant and equipment	**(254)**	(855)	(1 272)
Foreign currency translation reserve recycled to profit or loss	**(143)**	(2 340)	(3 097)
Profit on disposal of subsidiary	**–**	(2 824)	(2 824)
Fair value uplift on conversion from associate to subsidiary	**(27 741)**	–	–
Impairment of intangible assets and property, plant and equipment	**397**	–	2 979
Loss/(profit) on disposal of property, plant and equipment in associate	**466**	–	(12 075)
Impairment of intangible assets in associate	**4 755**	–	10 336
Headline earnings	**(139 052)**	1 344 242	987 671
Headline earnings per share (cents)	**(15.02)**	166.86	115.42

* *As a result of the revised guidance in Circular 2/2017 the Group has restated its comparative financial information for changes in accounting policies. The effects of this change have already been taken into account in the reported May 2018 results.*

Unaudited condensed Group statement of cash flows

	Note	**Six months ended 30 November 2018 Unaudited R'000**	Six months ended 30 November 2017 Unaudited R'000	Year ended 31 May 2018 Audited R'000
Cash flows from operating activities				
Cash (utilised in)/generated by operations		**(950 899)**	3 297 462	3 588 780
Interest received		**64 102**	43 702	154 952
Interest paid		**(118 819)**	(40 642)	(187 489)
Taxation paid		**(187 617)**	(184 522)	(368 099)
Net cash (utilised in)/generated from operating activities		**(1 193 233)**	3 116 000	3 188 144
Cash flows from investing activities				
Acquisition of intangible assets and property, plant and equipment		**(111 514)**	(46 119)	(102 823)
Acquisition of subsidiaries net of cash acquired	5	**(7 162)**	–	(291 240)
Acquisition of associate		**–**	(5 500 000)	(6 124 127)
Acquisition of bond notes		**–**	(79 050)	(117 037)
Liquidity support granted*		**(53 229)**	–	–
Loans repaid by/(advanced to) Cell C		**1 029 626**	(740 000)	(1 017 522)
Capital contribution to Oxigen Services India		**–**	–	(25 076)
Loans (granted)/repaid		**(7 163)**	66 567	23 348
Loans granted to associates and joint ventures		**(7 485)**	(1 841)	(31 641)
Settlement of contingent consideration		**(2 614)**	(27 867)	(27 867)
Other investing activities		**6 191**	(17 403)	(44 394)
Net cash generated from/(utilised in) investing activities		**846 650**	(6 345 713)	(7 758 379)
Cash flows from financing activities				
Borrowings raised		**632 603**	–	935 442
Acquisition of treasury shares		**(42 394)**	(28 846)	(28 846)
Share buy back**		**(224 006)**	–	–
Proceeds on share issue		**–**	2 750 000	3 650 000
Transaction costs on share issue		**–**	–	(12 424)
Dividends paid to non-controlling interest		**(28 553)**	(21 100)	(27 750)
Dividends paid to equity holders of the parent		**–**	(349 804)	(349 804)
Other financing activities		**–**	–	(58)
Net cash generated from financing activities		**337 650**	2 350 250	4 166 560
Net decrease in cash and cash equivalents		**(8 933)**	(879 463)	(403 675)
Cash and cash equivalents at the beginning of the period		**947 888**	1 350 666	1 350 666
Exchange gains on cash and cash equivalents		**693**	–	897
Cash and cash equivalents at the end of the period		**939 648**	471 203	947 888

* *This relates to the liquidity support given to SPV 2. Refer to note 3.*

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

Unaudited condensed Group statement of changes in equity

Six months ended	Note	Share capital, share premium and treasury shares Unaudited R'000	Retained earnings Unaudited R'000
Opening balance as at 1 June 2018		**7 844 847**	**4 283 854**
Adjustment on the initial application of IFRS 9	6	**–**	**(95 888)**
Adjustment on the initial application of IFRS 15	6	**–**	**9 717**
Adjusted opening balance as at 1 June 2018		**7 844 847**	**4 197 683**
Net loss for the period		**–**	**(116 532)**
Other comprehensive income		**–**	
Total comprehensive (loss)/income		**–**	**(116 532)**
Dividends paid		**–**	**–**
Treasury shares purchased		**(42 394)**	**–**
Equity compensation benefit scheme shares vested		**20 552**	**–**
Equity compensation benefit movement		**–**	**–**
Acquisition of non-controlling interests		**–**	**–**
Transaction with non-controlling interest reserve movement		**–**	**–**
Share buy back		**(224 006)**	**–**
Balance as at 30 November 2018		**7 598 999**	**4 081 151**
Balance as at 1 June 2017		3 953 871	3 640 034
Restated net profit for the period*		–	1 350 261
Other comprehensive income		–	–
Total comprehensive income		–	1 350 261
Dividends paid		–	(349 804)
Treasury shares purchased		(28 846)	–
Equity compensation benefit scheme shares vested		21 653	–
Equity compensation benefit movement		–	–
Disposal of non-controlling interests		–	–
Issue of shares		3 010 593	–
Restated balance as at 30 November 2017*		6 957 271	4 640 491

Year ended	Audited R'000	Audited R'000
Balance as at 1 June 2017	3 953 871	3 640 034
Net profit for the year	–	993 624
Other comprehensive income/(loss)	–	–
Total comprehensive income/(loss)	–	993 624
Treasury shares purchased	(28 846)	–
Shares issued	3 932 834	–
Transaction costs on shares issued	(34 663)	–
Equity compensation benefit scheme shares vested	21 651	–
Equity compensation benefit movement	–	–
Transaction with non-controlling interest reserve movement	–	–
B-BBEE transaction	–	–
Non-controlling interest acquired	–	–
Non-controlling interest disposed of	–	–
Dividends paid	–	(349 804)
Balance as at 31 May 2018	7 844 847	4 283 854

[1] *Other reserves include foreign currency translation reserve and the non-distributable reserve.*
[2] *The transactions with non-controlling interest reserve relates to the excess payments over the carrying amounts arising on transactions with non-controlling shareholders as these are treated as equity participants.*
[3] *Includes employee equity compensation benefit reserve.*
[4] *This relates to a put option that the Group has on the remaining 40% shareholding in AV Technology Limited.*
[5] *This relates to a put option that the Group has on the remaining 40% shareholding in Airvantage Proprietary Limited.*

Restructuring reserve Unaudited R'000	Other reserves[1] Unaudited R'000	Transactions with non-controlling interest reserve[2] Unaudited R'000	Share-based payment reserve[3] Unaudited R'000	Non-controlling interest Unaudited R'000	Total equity Unaudited R'000
(1 843 912)	**84 662**	**(1 069 268)**	**49 542**	**156 917**	**9 506 642**
–	**–**	**–**	**–**	**(1 437)**	**(97 325)**
–	**–**	**–**	**–**	**–**	**9 717**
(1 843 912)	**84 662**	**(1 069 268)**	**49 542**	**155 480**	**9 419 034**
–	**–**	**–**	**–**	**18 937**	**(97 595)**
–	**17 324**	**–**	**–**	**(295)**	**17 029**
–	**17 324**	**–**	**–**	**18 642**	**(80 566)**
–	**–**	**–**	**–**	**(28 553)**	**(28 553)**
–	**–**	**–**	**–**	**–**	**(42 394)**
–	**–**	**–**	**(19 914)**	**(638)**	**–**
–	**–**	**–**	**2 479**	**197**	**2 676**
–	**–**	**–**	**–**	**39 768**	**39 768**
–	**–**	**(62 784)[4]**	**–**	**–**	**(62 784)**
–	**–**	**–**	**–**	**–**	**(224 006)**
(1 843 912)	**101 986**	**(1 132 052)**	**32 107**	**184 896**	**9 023 175**
(1 843 912)	107 036	(975 302)	46 420	67 137	4 995 284
–	–	–	–	51 098	1 401 359
–	8 759	–	–	36	8 795
–	8 759	–	–	51 134	1 410 154
–	–	–	–	(21 100)	(370 904)
–	–	–	–	–	(28 846)
–	–	–	(21 363)	(290)	–
–	–	–	12 969	364	13 333
–	–	–	–	(2 824)	(2 824)
–	–	–	–	–	3 010 593
(1 843 912)	115 795	(975 302)	38 026	94 421	9 026 790
Audited R'000	**Audited R'000**	**Audited R'000**	**Audited R'000**	**Audited R'000**	**Audited R'000**
(1 843 912)	107 036	(975 302)	46 420	67 137	4 995 284
–	–	–	–	53 685	1 047 309
–	(22 374)	–	–	(465)	(22 839)
–	(22 374)	–	–	53 220	1 024 470
–	–	–	–	–	(28 846)
–	–	–	–	–	3 932 834
–	–	–	–	–	(34 663)
–	–	–	(21 362)	(289)	–
–	–	–	23 084	778	23 862
–	–	(93 966)[5]	–	–	(93 966)
–	–	–	1 400[6]	–	1 400
–	–	–	–	66 645	66 645
–	–	–	–	(2 824)	(2 824)
–	–	–	–	(27 750)	(377 554)
(1 843 912)	84 662	(1 069 268)	49 542	156 917	9 506 642

[6] *The B-BBEE transaction was concluded by Panacea Mobile Proprietary Limited and Simigenix Proprietary Limited (the companies), subsidiaries of Blue Label Telecoms. In October 2017 the companies declared dividends to the full value of the companies to Blue Label Telecoms. Such dividends were immediately converted to preference shares. Subsequent to this, the companies issued shares to Bitsana Investments Proprietary Limited for nominal value. The Group has not recognised this dilution and accounts for the companies as wholly owned subsidiaries until the preference shares have been settled in full. The preference shares will be settled through the declaration of dividends by the companies. There are no specified dates for this.*

* *As a result of the revised guidance in Circular 2/2017 the Group has restated its comparative financial information for changes in accounting policies. The effects of this change have already been taken into account in the reported May 2018 results.*

Notes to the unaudited condensed Group

1. Segmental summary

Six months ended 30 November 2018	Total Unaudited R'000	Africa Distribution Unaudited R'000
Total segment revenue	**16 975 493**	**16 579 987**
Internal revenue	**(4 673 776)**	**(4 562 065)**
Revenue	**12 301 717**	**12 017 922**
Operating profit/(loss) before depreciation, amortisation and impairment charges	**379 168**	**318 065**
Net (loss)/profit for the period attributable to equity holders of the parent	**(116 532)**	**(135 565)**
Amortisation on intangibles raised through business combinations net of tax and non-controlling interest	**33 658**	**30 140**
Headline earnings adjustments net of non-controlling interest	**(22 520)**	**(22 366)**
Core headline earnings for the period attributable to equity holders of the parent	**(105 394)**	**(127 791)**
At 30 November 2018		
Total assets	**19 173 728**	**17 715 570**
Net operating assets/(liabilities)	**688 178**	**673 878**
Six months ended 30 November 2017		
Total segment revenue	17 150 096	16 755 138
Internal revenue	(3 516 654)	(3 397 307)
Revenue	13 633 442	13 357 831
Operating profit/(loss) before depreciation, amortisation and impairment charges	768 475	732 048
Net profit/(loss) for the period attributable to equity holders of the parent	1 350 261	1 383 659
Amortisation on intangibles raised through business combinations net of tax and non-controlling interest	13 987	12 047
Headline earnings adjustments net of non-controlling interest	(6 019)	(814)
Core headline earnings for the period attributable to equity holders of the parent	1 358 229	1 394 892
At 30 November 2017		
Total assets	15 262 129	13 772 880
Net operating (liabilities)/assets	(491 030)	(631 138)

Year ended 31 May 2018	Audited R'000	Audited R'000
Total segment revenue	33 633 266	32 897 392
Internal revenue	(6 833 001)	(6 652 186)
Revenue	26 800 265	26 245 206
Operating profit/(loss) before depreciation, amortisation and impairment charges	1 340 153	1 344 824
Net profit/(loss) for the year attributable to equity holders of the parent	993 624	1 344 642
Amortisation on intangibles raised through business combinations net of tax and non-controlling interest	44 345	40 852
Headline earnings adjustments net of non-controlling interest	(5 953)	(755)
Core headline earnings for the year attributable to equity holders of the parent	1 032 016	1 384 739
At 31 May 2018		
Total assets	17 930 951	16 671 589
Net operating assets/(liabilities)	1 848 117	1 758 210

International Unaudited R'000	Mobile Unaudited R'000	Solutions Unaudited R'000	Corporate Unaudited R'000
12 940	**169 407**	**106 326**	**106 833**
–	**(3 968)**	**(910)**	**(106 833)**
12 940	**165 439**	**105 416**	**–**
26 700	**48 580**	**21 978**	**(36 155)**
19 570	**29 447**	**25 155**	**(55 139)**
2 688	**830**	**–**	**–**
(143)	**(11)**	**–**	**–**
22 115	**30 266**	**25 155**	**(55 139)**
697 563	**558 150**	**170 321**	**32 124**
114 073	**24 961**	**41 200**	**(165 934)**
–	178 848	103 577	112 533
–	(5 860)	(954)	(112 533)
–	172 988	102 623	–
22 203	47 283	24 442	(57 501)
(17 539)	26 433	13 715	(56 007)
825	1 115	–	–
(5 164)	(36)	(5)	–
(21 878)	27 512	13 710	(56 007)
792 031	564 755	126 566	5 897
51 074	62 418	35 600	(8 984)

Audited R'000	Audited R'000	Audited R'000	Audited R'000
–	370 358	196 762	168 754
–	(10 388)	(1 673)	(168 754)
–	359 970	195 089	–
(2 903)	101 883	42 838	(146 489)
(227 000)	57 609	29 836	(211 463)
1 549	1 944	–	–
(5 164)	126	(22)	(138)
(230 615)	59 679	29 814	(211 601)
518 045	561 330	146 672	33 315
94 701	62 036	36 780	(103 610)

2. Revenue

	Six months ended 30 November 2018 Unaudited R'000	Six months ended 30 November 2017 Unaudited R'000	Year ended 31 May 2018 Audited R'000
Revenue from contracts with customers	**12 041 879**	13 633 442	26 628 637
Prepaid airtime, data and related revenue	**9 651 183**	12 387 119	22 968 967
Postpaid airtime, data and related revenue	**78 187**	54 028	110 535
Prepaid and postpaid SIM cards	**603 092**	425 555	889 001
Services	**331 717**	311 157	629 667
Electricity commission	**190 470**	154 325	299 850
Handsets, tablets and other devices	**1 092 645**	239 233	1 586 817
Other revenue	**94 585**	62 025	143 800
Finance revenue	**259 838**	–	171 628
	12 301 717	13 633 442	26 800 265

The Africa distribution segment contributed to each of the above revenue categories. The majority of revenue contributed by the Solutions and Mobile segments are within Services. The International segment contributed revenue only to Finance revenue. Refer to note 1, Segmental summary, for a disaggregation of revenue contribution by each segment.

On adoption of IFRS 15 *Revenue from Contracts with Customers*, the revenue recognition on the sale of certain handsets, postpaid airtime and prepaid and postpaid SIM cards has changed. Refer to note 6.

3. Financial instruments

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

Changes in level 3 instruments are as follows:

	Bond notes (SPV1) R'000	Liquidity support (SPV2) R'000	Loans at fair value R'000	Other R'000	Total R'000
Opening balance as at 1 June 2018	**167 519**	**(45 360)**	**–**	**625**	**122 784**
Reclassification from financial assets at amortised cost to financial assets at fair value through profit or loss	–	–	361 160	–	361 160
Additions	–	53 229	–	–	53 229
Fair value loss recognised in profit or loss (unrealised)	(46 823)	(445 816)	–	(613)	(493 252)
Closing balance as at 30 November 2018	**120 696**	**(437 947)**	**361 160**	**12**	**43 921**
Financial assets at fair value through profit or loss	120 696	–	361 160	12	481 868
Financial liabilities at fair value through profit or loss	–	(437 947)	–	–	(437 947)
Closing balance as at 30 November 2018	**120 696**	**(437 947)**	**361 160**	**12**	**43 921**

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 Limited (Cell C) by third-party lenders, The Prepaid Company will be required to provide liquidity support to Magnolia Cellular Investment 2 (RF) Proprietary Limited (SPV2), which is 100% held by 3C Telecommunications Proprietary Limited, of up to USD80 million, which liquidity support will be provided over 24 months and will be in the form of subordinated funding to SPV2. Oger Telecoms contributed USD36 million of the aforesaid USD80 million thus reducing The Prepaid Company's obligation in this regard to a maximum of USD44 million. As at 30 November 2018, the Group had contributed USD4 million to SPV2.

Fair value estimate

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

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

The derivatives are not traded in an active market and therefore the fair value is determined by the use of a valuation technique. The finance department of the Group includes a team that outsources the valuation to a qualified independent third-party valuation specialist. This team reports directly to the Financial Director (FD) and the Audit, Risk and Compliance Committee (ARCC). The valuation was performed using a binomial model taking into account the value of Cell C and an expected exit event date of Cell C in the second quarter of 2020. As both arrangements are USD denominated, the model accounts for the forward rate of the USD at the expected listing date.

As at 30 November 2018, a qualified independent third-party specialist determined the value of Cell C to be R13.4 billion. As a result, an unrealised fair value loss totalling R493 million was recognised in the current period, of which R47 million related to SPV1 and R446 million to SPV2. The remaining exposure to these derivatives is R121 million and R102 million respectively.

The following table illustrates the sensitivity of the valuation of Cell C used to value the derivatives:

Unobservable input	Change to inputs	Movement in fair value of SPV1 R'000	Movement in fair value of SPV2 R'000	Total movement in fair value R'000
Valuation of Cell C	5%	5 990	27 666	33 656
	(5%)	(5 999)	(19 990)	(25 989)

3. Financial instruments continued

Loans at fair value

Blue Label acquired a 48% share in Glocell Distribution Proprietary Limited (Glocell) on 30 June 2018 (refer to note 5). Following the acquisition, and due to new contractual arrangements with the remaining shareholders of Glocell, trade receivables to the value of R361 million held at amortised cost have been restructured, exposing the Group to the share price of Glocell and therefore have been reclassified to financial assets at fair value through profit or loss.

Fair value estimate

A discounted cash flow valuation of Glocell has been used to determine the fair value of the loan at fair value. 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 key assumptions used in the valuation calculation and their sensitivities are as follows:

	Growth rate %	Discount rate %
Key assumption applied to value-in-use calculation	5.00	19.48
Change in key assumption that would give rise to a fair value loss	(0.78)	0.46

The headroom in the valuation calculated and the Group carrying value is R19.8 million.

Financial liabilities

Put option liability (included in trade and other payables)

Put option liabilities represent contracts that impose an obligation on the Group to purchase the shares of a subsidiary for cash or another financial asset. Put option liabilities are initially raised from the transaction with non-controlling interest reserve in equity at the present value of the expected redemption amount payable. Subsequent revisions to the expected redemption amount payable as well as the unwinding of the discount related to the measurement of the present value of the put option liability, are recognised in the income statement. Where a put option liability expires unexercised or is cancelled, the carrying value of the financial liability is released to the transaction with non-controlling interest reserve in equity. The Group recognises the non-controlling interest over which a put option exists at acquisition date. Put option liabilities are presented within trade and other payables in the Group statement of financial position.

Changes in level 3 instruments are as follows:

	Six months ended 30 November 2018 Unaudited R'000	Six months ended 30 November 2017 Unaudited R'000	Year ended 31 May 2018 Audited R'000
Opening balance	**97 947**	–	–
Acquisition of Airvantage Proprietary Limited*	**–**	–	93 966
Acquisition of AV Technology Limited**	**62 784**		
Remeasurements recognised in the income statement	**(9 798)**	–	3 981
Closing balance	**150 933**	–	97 947

**This relates to a put option that the Group has on the remaining 40% shareholding in Airvantage Proprietary Limited. This is exercisable within the next six months. The Group will settle this from available cash resources. The option is valued based on the forecast net profit after tax for 12 months ending 28 February 2019 at a six multiple, initially present valued to the date of the acquisition 2 January 2018, as per the contract.*

***This relates to a put option that the Group has on the remaining 40% shareholding in AV Technology Limited. This is exercisable within the next six months. The Group will settle this from available cash resources. The option is valued based on the forecast net profit after tax for 12 months ending 28 February 2019 at a six multiple, initially present valued to the date of the acquisition 1 August 2018, as per the contract. Refer to note 5.*

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

	Increase/(decrease) in put option liabilities and loss/(gain) in the income statement
1% increase in discount rate, 10% decrease in net profit after tax	(15 765)
1% decrease in discount rate, 10% increase in net profit after tax	15 919

4. Investments

4.1 Investments in and loans to venture capital associates and joint venture

	Six months ended 30 November 2018 Unaudited R'000	Six months ended 30 November 2017 Unaudited R'000	Year ended 31 May 2018 Audited R'000
Venture capital associates and joint venture	**156 095**	292 266	142 981
Loan to venture capital associates and joint venture	**147 276**	275 221	134 854
	303 371	567 487	277 835

The exemption available in IAS 28 – *Investments in Associate and Joint Ventures* has been applied to the investment in Oxigen Services India, Oxigen Online (Oxigen group) and 2DFine Holdings Mauritius from 30 November 2016 and the investment is now accounted for in accordance with IAS 39 – *Financial Instruments: Recognition and Measurement* at fair value with changes in fair value recognised in profit or loss. The differential between the carrying amount of the investment (previously equity accounted for) and the fair value at this date is reflected as a gain on associate measured at fair value in the reviewed condensed Group statement of comprehensive income. Any additional changes in the fair value are recognised in the Group statement of comprehensive income. The fair value gain recognised in the Group statement of comprehensive income for the period ended was R13 million (2017: R0.7 million gain).

Prior to 30 November 2016, the investment in Oxigen Services India was of a strategic nature, as it was it was expected to emulate the business model of the South African distribution operations. The original decision to invest in this business was because it was strategically aligned with other Blue Label distribution businesses in South Africa. However, its profile has changed from that of the traditional Group business to one of generating growth in the market value of the investment with a view to unlocking the Group's share thereof. With the advent of its change in focus to financial services through wallet subscription, it is no longer strategically aligned with the other business units of the Group and is unlikely to generate profitability in the short to medium term. However, the market value of the company is expected to increase exponentially in conjunction with its growth in wallet subscribers. This in turn creates the potential to unlock the investment in value in the future and the Group is pursuing this new strategy with respect to its investment in Oxigen Services India. In line with the Group's exit strategy, Oxigen Services India was demerged into two separate entities with effect from 1 June 2016. This was implemented to improve the marketability of these entities to potential investors.

2DFine Holdings Mauritius is an investment holding company that holds an interest in Oxigen Services India and Oxigen Online. Consequently, management reviews the results and operations of Oxigen Services India, Oxigen Online and 2DFine Holdings Mauritius on a fair value basis as opposed to the profits/losses that they generate. In addition, management has established an exit strategy with a view to realising this fair value in the foreseeable future.

Accordingly Oxigen Services India, Oxigen Online and 2DFine Holdings Mauritius are viewed as a venture capital investment which, in accordance with IAS 28 – *Investments in Associates and Joint Ventures* has been accounted for at fair value through profit or loss from 30 November 2016 at which date equity accounting ceased.

Fair value estimate

The finance department of the Group includes a team that outsources the valuations to a qualified independent third-party valuation specialist required for financial reporting purposes, including level 3 fair values. This team reports directly to the FD and the ARCC. Discussions of valuation processes and results are held between the FD, ARCC and the valuation team at least once every six months, in line with the Group's reporting periods.

In the current period management has taken the inputs from the qualified independent third-party valuation specialist and adjusted the inputs for corporate transactions currently in progress.

The investments in venture capital associates and joint venture are classified as level 3 valuations in the fair value hierarchy.

In terms of IFRS 13 – *Fair Value Measurement*, the market approach has been utilised in determining the fair value of Oxigen Services India and Oxigen Online. This approach utilises relevant information generated by similar market transactions that have been concluded by comparable businesses. The valuation is based on a multiple applied to gross revenue, based on the same principles adopted by similar businesses to that of the Oxigen group, that were recently disposed of. The adjusted revenue multiple of 4.3 (2017: 5.1 to historical revenues) was applied to future revenues in determining the fair value.

The following table summarises the quantitative information about the significant unobservable inputs used in the level 3 fair value measurement for this investment.

Unobservable input	**Change to inputs**	**Movement**
Revenue multiple	0.2	11 929
	0.1	6 288
	(0.1)	(4 993)
	(0.2)	(10 634)
	(0.3)	(16 274)

4. Investments continued

4.1 Investments in and loans to venture capital associates and joint venture continued

Critical accounting judgements and assumptions

A corporate transaction that is in progress has been taken into account in determining the fair value of the Oxigen group. However, should this transaction not materialise, the fair value of the Oxigen group would reduce significantly. The full fair value of and loans to the Oxigen group would be required to be written down through profit or loss. In addition, the Group has provided guarantees amounting to USD8 million on behalf of the Oxigen group, which the Group would have to honour should the corporate transaction not materialise.

4.2 Impairment of investments in and loans to associates and joint venture

The fair value movements on the derivatives related to SPV1 and SPV2 which are linked to Cell C's fair value triggered the need to perform an impairment test on the Group's investment in Cell C. In addition, management also performed an impairment test on the Group's investment in Blue Label Mexico due to the losses incurred in that company.

The recoverable amount has been determined as the higher of fair value less cost of disposal and the value-in-use.

Cell C

The fair value less cost of disposal has been used to value Cell C. The fair value was determined using a discounted cash flow valuation technique which uses cash flow projections based on a forecast approved by the Board of Directors for the forthcoming year and forecasts for up to five years. These forecasts include cash flows based on the successful execution of a corporate transaction. These cash flows are then discounted at an appropriate rate incorporating a risk premium for the outcome of a corporate transaction being successful.

Blue Label Mexico

The value-in-use has been used to value Blue Label Mexico. These value-in-use calculations use cash flow projections based on financial budgets approved by the Board of Directors for the forthcoming year and forecasts for up to five years which include assumptions of the business, industry and economic growth.

The key assumptions used for the valuation calculations are as follows:

	Growth rate %	Discount rate %
Cell C Limited	5.1	18.35
Blue Label Mexico S.A. de C.V.	3.5	20.60

The discount rates used are pre-tax and reflect specific risks relating to the relevant associate and joint venture. The growth rate is used to extrapolate cash flows beyond the budget period. The growth rates are consistent with publicly available information relating to long-term average growth rates for each of the markets in which the companies operate.

The inputs used when calculating the valuations would need to be increased/(decreased) by the following amounts before any impairment would need to be recognised:

	Growth rate %	Discount rate %
Cell C Limited	(0.15)	0.1
Blue Label Mexico S.A. de C.V.	(7.1)	3.6

The headroom between the valuations calculated and the Group carrying value is as follows:

	Excess over carrying value R'000
Cell C Limited	49 343
Blue Label Mexico S.A. de C.V.	32 928

Based on the impairment testing performed, the Group has concluded that no impairment is necessary.

In order to mitigate further losses in Blue Label Mexico, major rationalisation and restructure programmes were implemented with effect from December 2018. These measures should result in a return to profitability.

Critical accounting judgements and assumptions

In determining the future cash flows of Cell C, management has applied their judgement, in conjunction with taking into account the likelihood of corporate transactions being successful, that no impairment to the carrying value of the investment in Cell C is required. However, should these corporate transactions not materialise an impairment to the carrying value of the investment may well have to be recognised.

5. Acquisition of subsidiaries

The Group acquired shares in the following subsidiaries during the current period:

	Effective date of acquisition	% acquired
Subsidiaries		
Glocell Distribution Proprietary Limited	**30 June 2018**	**48%**
Distributor of airtime, starter packs and mobile phones through its retail outlets and to wholesale customers in South Africa, including postpaid and prepaid contracts		
AV Technology Limited	**1 August 2018**	**60%**
Owner of retail stores trading in cellular handsets, tablets and related accessories, as well as SIM cards, post-paid and pre-paid contracts		
Lornanox Proprietary Limited	**31 July 2018**	**100%**
Owner of retail stores (subsequently rebranded WiConnect) trading in cellular handsets, tablets and related accessories, as well as SIM cards, postpaid and prepaid contracts		

Details of the total net assets acquired and the resulting goodwill as at the date of acquisition are as follows:

	Glocell Distribution Proprietary Limited R'000	AV Technology Limited R'000	Lornanox Proprietary Limited R'000
Total purchase consideration	173 398	84 187	5 000
Provisional fair value of net assets acquired	15 239	34 889	(40 587)
Goodwill	158 159	49 298	45 587

5. Acquisition of subsidiaries continued

The provisional assets and liabilities acquired through acquisition are as follows:

	Glocell Distribution Proprietary Limited		AV Technology Limited		Lornanox Proprietary Limited	
	Provisional fair value at acquisition date R'000	Acquirer's provisional carrying amount on acquisition date R'000	Provisional fair value at acquisition date R'000	Acquirer's provisional carrying amount on acquisition date R'000	Provisional fair value at acquisition date R'000	Acquirer's provisional carrying amount on acquisition date R'000
Cash and cash equivalents	5 978	5 978	65 442	65 442	10 605	10 605
Property, plant and equipment	4 086	4 086	–	–	39 251	39 251
Intangible assets	54 529	31 736	78 059	440	–	–
Goodwill	158 159	–	49 298	–	45 587	–
Inventories	7 267	7 267	–	–	34 255	34 255
Receivables	14 677	14 677	10 039	10 039	29 659	29 659
Deferred tax	(6 382)	–	(21 733)	–	6 880	18 067
Borrowings	–	–	–	–	(104 529)	(144 481)
Payables	(48 407)	(48 407)	(73 658)	(73 658)	(56 709)	(56 709)
Provisional value of subsidiaries acquired	189 907	15 337	107 447	2 263	4 999	(69 353)
Non-controlling interest		(7 975)		(905)		–
Provisional value of net assets acquired		7 362		1 358		(69 353)
Total purchase consideration		173 398		84 187		5 000
Less: trade receivables capitalised		(173 398)		–		–
Cash and cash equivalents in subsidiary acquired		(5 978)		(65 442)		(10 605)
Cash (inflow)/outflow from acquisitions		(5 978)		18 745		(5 605)

Glocell Distribution Proprietary Limited (Glocell) and Lornanox Proprietary Limited (Lornanox) were purchased with the objective of affording the Group access to new channels for the supply and distribution of airtime, mobile devices and contracts. AV Technology Limited (AV Technology) gives the Group the ability to advance airtime, data and mobile money services to mobile network subscribers in Africa.

In most business acquisitions, there is a part of the cost that is not capable of being attributed in accounting terms to identifiable assets and liabilities acquired and is therefore recognised as goodwill. In the case of the above acquisitions, this goodwill is underpinned by a number of elements, which individually cannot be quantified. Most significant among these in Glocell and Lornanox is the opportunity that the distribution network affords the Group. Most significant in AV Technology is the opportunity that the prepaid airtime advance system affords the Group.

6. Change in accounting policies

Circular 2/2017

During the year ended 31 May 2018, the South African Institute of Chartered Accountants issued Circular 2/2017 which replaced Circular 9/2006. Circular 9/2006 – *Transactions giving rise to adjustments to revenue/purchases* previously included guidance on the recognition of financing elements. Although the Group did not believe that their revenue and purchase transactions constituted financing activities, the Group had previously accounted for its sale and purchase transactions as including a financing element based on the guidance in Circular 9/2006.

Subsequent to the issuing of Circular 9/2006, the International Financial Reporting Standards Interpretations Committee (Interpretations Committee) had debated financing elements contained within transactions for both revenue and purchases under the current accounting standards (IAS 2 – *Inventories* and IAS 18 – *Revenue*). Circular 2/2017 considers these developments and updates the previous guidance contained in Circular 9/2006 relating to financing elements of revenue and purchases. Circular 2/2017 repeals the guidance in Circular 9/2006 that deals with extended payment terms (paragraphs 23 to 30).

As a result of the revised guidance in Circular 2/2017, the Group reconsidered its accounting policy with respect to financing components included in its sale and purchase transactions in the ordinary course of business. In line with the guidance contained in Circular 2/2017, in particular the indicators provided in paragraph 7 of the Circular, the Group concluded that there is no financing component included in its sale and purchase transactions that occur in the ordinary course of business. In accordance with IAS 8, the Group has accordingly restated its comparative financial information for the period ended 30 November 2017 for this change in accounting policy.

Group statement of financial position

As at	Restated November 2017 R'000	Adjustments R'000	Previously reported November 2017 R'000
Assets			
Non-current assets	**9 589 037**	**–**	**9 589 037**
Current assets	**5 673 092**	**11 505**	**5 661 587**
Trade and other receivables	3 049 105	11 505	3 037 600
Total assets	**15 262 129**	**11 505**	**15 250 624**
Equity and liabilities			
Capital and reserves	**9 026 790**	**(7 709)**	**9 034 499**
Retained earnings	4 640 491	(7 709)	4 648 200
Non-current liabilities	**71 217**	**(2 998)**	**74 215**
Deferred taxation liabilities	66 463	(2 998)	69 461
Current liabilities	**6 164 122**	**22 212**	**6 141 910**
Trade and other payables	6 073 592	22 212	6 051 380
Total equity and liabilities	**15 262 129**	**11 505**	**15 250 624**

Group income statement

For the period ended	Restated November 2017 R'000	Adjustments R'000	Previously reported November 2017 R'000
Revenue	13 633 442	83 745	13 549 697
Changes in inventories of finished goods	(12 492 195)	(93 571)	(12 398 624)
Operating profit	**708 013**	**(9 826)**	**717 839**
Finance costs	(126 431)	91 191	(217 622)
Finance income	69 074	(79 352)	148 426
Net profit before taxation	**1 591 797**	**2 013**	**1 589 784**
Taxation	(190 438)	(564)	(189 874)
Net profit for the year	**1 401 359**	**1 449**	**1 399 910**
Net profit for the year attributable to:			
Equity holders of the parent	1 350 261	1 449	1 348 812
Earnings per share for profit attributable to:			
Equity holders (cents)			
– Basic	167.61	0.18	167.43
– Diluted	149.83	0.18	149.65

The change in accounting policy had no impact on the Group cash flow statement.

6. Change in accounting policies continued

IFRS 15 – *Revenue from Contracts with Customers*

IFRS 15 replaces both IAS 11 and IAS 18 as well as SIC 31, IFRIC 13, IFRIC 15 and IFRIC 18 and establishes a comprehensive framework for recognition of revenue from contracts with customers. Revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires a certain level of judgement.

On application of IFRS 15, the following material changes and considerations have been made:

Revenue category	Nature of material considerations and changes in accounting policy
Postpaid airtime, data and related revenue	Due to the change in considerations for the recognition of principal versus agent under IFRS 15, revenue relating to certain contracts that were previously recognised as agent at a point in time, are now accounted for as principal and over the term of the contract (generally 24 months). This new treatment aligns with the majority of revenue that was recognised in this category, both under IAS 18 and now under IFRS 15. The effect of this change in the current year income statement due to a change in timing of revenue recognition reduces net profit after tax attributable to equity holders of the parent by R15 million.
Prepaid and postpaid SIM cards	The Group earns activation and ongoing revenue on starter packs that have been distributed to prepaid customers. Under IFRS 15, the recognition of ongoing revenue requires a certain level of judgement (refer to critical accounting judgements and assumptions below) and the Group has concluded that the treatment remains unchanged. However, the initial sale of starter packs is now deemed to have a financing element under IFRS 15. As such revenue is recognised at the point of sale of starter packs taking into account the time value of money. The unwinding of the corresponding trade receivables balance is recognised in revenue, resulting in an immaterial effect on the group statement of comprehensive income.
Sale of handsets, tablets and other devices	Due to the change in considerations for the recognition of principal versus agent under IFRS 15, revenue relating to the sale of handsets under certain contracts that were previously recognised as principal are now accounted for as agent. In general, the sale of handsets, tablets and devices remain as principal under IFRS 15 as they were historically under IAS 18. The effect of this change due to IFRS 15 on the current year group statement of comprehensive income is only a reclassification between revenue and changes in inventories of finished goods to the value of R672 million. The gross profit effect of this change is nil.
Income from associates and joint ventures	**Nature of material considerations and changes in accounting policy**
Contract and equipment revenue in associate	The Group capitalises costs incurred in obtaining contract customers. These costs were previously expensed under IAS 18. The Group recognises the costs of obtaining and fulfilling a contract as an intangible asset only when the costs: • relate directly to an existing contract or specified anticipated contract; • generate or enhance the resources of the Group that will be used to satisfy performance obligations in the future; and • are expected to be recovered. The Group adopted the practical expedient and expenses costs incurred in obtaining a contract with customers when the contract is less than a year. This has been the most significant impact on the income from associates and joint venture line item in the statement of comprehensive income.
Revenue category	**Critical accounting judgements and assumptions**
Prepaid and postpaid SIM cards – ongoing revenue	The Group earns ongoing revenue on starter packs that have been distributed to prepaid customers. The Group is entitled to ongoing revenue on all future prepaid airtime purchases that a signed-up prepaid customer makes, even if the subscriber does not top up through Group companies in the future. Ongoing revenue earned is variable in nature as the Group's entitlement to these amounts is dependent on the future spending patterns of the prepaid customers, and therefore contingent on a future event occurring or not occurring. IFRS 15 requires an entity to estimate the amount of variable consideration it will be entitled to for the contracts it has entered into with its customers and include this in the transaction price at contract inception, to the extent the variable consideration is not constrained. The Group has concluded that the ongoing revenue is fully constrained at the individual contract level due to the high variability in behaviour of the individual customers, including: • the period over which prepaid customers remain on the same SIM card (this can range from one day to a number of years); and • the spending patterns of individual customers, which is also highly variable. In addition, because the terms of the ongoing revenue structure with the telecommunication companies are regularly up for negotiation, the Group is not able to predict the likelihood or magnitude of a revenue reversal. The Group's policy is therefore only to recognise the variable consideration as revenue as and when it is received because it is only at this point that it is highly probable that a significant reversal in revenue for that contract will not occur in the future.

6. Change in accounting policies continued

IFRS 9 – *Financial Instruments*

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*.

Classification and measurement of financial assets

The adoption of IFRS 9 has not had a material impact on the Group's accounting policies related to the classification and measurement of financial assets, financial liabilities and derivative financial instruments.

Impairment of financial assets

IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" (ECL) model. The Group has four types of financial assets that are subject to the new ECL model:
- trade receivables;
- loans receivable and loans to associates and joint ventures;
- guarantees; and
- cash and cash equivalents (immaterial impairment loss identified).

The Group was required to revise its impairment methodology under IFRS 9 for each of these classes of assets. The impact of the change in impairment methodology on the Group's retained earnings is disclosed below.

Trade receivables

The Group applies the IFRS 9 simplified approach to measuring ECL which uses a lifetime expected loss allowance for all trade receivables. ECLs are calculated by applying a loss ratio to the aged balance of trade receivables at each reporting date. The loss ratio is calculated according to the ageing/payment profile of sales by applying historic/proxy write-offs to the payment profile of the sales population. Trade receivable balances have been grouped so that the ECL calculation is performed on groups of receivables with similar risk characteristics and ability to pay. Similarly, the sales population selected to determine the ageing/payment profile of the sales is representative of the entire population and in line with future payment expectations. The historic loss ratio is then adjusted for forward looking information to determine the ECL for the portfolio of trade receivables at the reporting period.

Loans receivable, loans to associates and joint ventures, and guarantees

The Group applies the IFRS 9 general approach to measuring expected credit losses which uses a 12-month expected loss allowance for all loans receivables, loans to associates and joint ventures, and guarantees individually. ECLs are calculated by applying a loss ratio to the balance of each loan and guarantee at each reporting date. The loss ratio for loans is calculated according to the ageing/payment profile of loans by applying historic write-offs to the payment profile of the loan population. The loss ratio for guarantees is calculated according to the past history of drawdowns on the financial guarantee contract population. The historic loss ratio is then adjusted for forward looking information to determine the ECL for each loan and guarantee at the reporting period to the extent that there is a strong correlation between the forward looking information and the ECL. To calculate an ECL, management allocates a risk rating to each loan and guarantee. The risk rating is assigned an average cumulative default rate based on management assessing market default rates for emerging markets. This rate is added to the historical loss ratio to determine the ECL of the relevant loan or guarantee.

Critical accounting judgements and assumptions

The ECL for financial assets is based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the input to the impairment calculation, based on the Group's past history, existing market conditions, as well as forward looking estimates at the end of each reporting period.

IFRS 15 and IFRS 9 transition

The Group has applied both IFRS 9 – *Financial Instruments* and IFRS 15 – *Revenue from Contracts with Customer*s using the modified retrospective approach, by recognising the cumulative effect of initially applying IFRS 9 and IFRS 15 as an adjustment to the opening balance of equity at 1 June 2018. Therefore the comparative information on the unaudited condensed Group statement of financial position and unaudited condensed Group statement of comprehensive income has not been restated for the adoption of these new standards and continues to be reported under the previously applied standards.

In accordance with the requirements of applying the modified retrospective approach under IFRS 9 and IFRS 15, the current financial information has been presented below with adjustments to indicate the Group results had IFRS 9 and IFRS 15 not been adopted.

6. Change in accounting policies continued

Group statement of financial position

As at	November 2018 under previously applied standards R'000	IFRS 9 adjustments R'000	IFRS 15 adjustments R'000	Reported November 2018 R'000
ASSETS				
Non-current assets	10 331 485	80 816	(175 924)	**10 426 593**
Property, plant and equipment	203 648	–	–	**203 648**
Intangible assets	1 168 684	–	–	**1 168 684**
Goodwill	1 291 529	–	–	**1 291 529**
Investments in and loans to associates and joint ventures	6 162 270	83 164	(164 994)	**6 244 100**
Investments in and loans to venture capital associates and joint venture	303 371	–	–	**303 371**
Loans receivable	53 827	962	–	**52 865**
Financial assets at fair value through profit or loss	481 868	–	–	**481 868**
Trade and other receivables	591 434	–	–	**591 434**
Deferred taxation assets	74 854	(3 310)	(10 930)	**89 094**
Current assets	8 864 399	25 995	91 269	**8 747 135**
Inventories	1 350 442	–	–	**1 350 442**
Loan to associate	–	–	–	**–**
Loans receivable	180 163	10 235	–	**169 928**
Financial assets at fair value through profit or loss	–	–	–	**–**
Trade and other receivables	6 349 655	15 760	91 269	**6 242 626**
Current tax assets	34 386	–	–	**34 386**
Cash and cash equivalents	949 753	–	–	**949 753**
Total assets	19 195 884	106 811	(84 655)	**19 173 728**
EQUITY AND LIABILITIES				
Capital and reserves	9 042 097	125 478	(106 556)	**9 023 175**
Share capital, share premium and treasury shares	7 598 999	–	–	**7 598 999**
Restructuring reserve	(1 843 912)	–	–	**(1 843 912)**
Other reserves	101 986	–	–	**101 986**
Share-based payments	32 107	–	–	**32 107**
Transactions with non-controlling interest reserve	(1 132 052)	–	–	**(1 132 052)**
Retained earnings	4 098 084	123 489	(106 556)	**4 081 151**
	8 855 212	123 489	(106 556)	**8 838 729**
Non-controlling interest	186 885	1 989	–	**184 896**
Non-current liabilities	2 103 392	–	11 796	**2 091 596**
Deferred taxation liabilities	285 890	–	11 796	**274 094**
Borrowings	1 804 250	–	–	**1 804 250**
Trade and other payables	13 252	–	–	**13 252**
Current liabilities	8 050 395	(18 667)	10 105	**8 058 957**
Trade and other payables	5 718 380	(19 770)	10 105	**5 728 045**
Provisions	42 522	–	–	**42 522**
Financial liabilities at fair value through profit or loss	437 947	–	–	**437 947**
Current tax liabilities	36 297	1 103	–	**35 194**
Bank overdraft	10 105	–	–	**10 105**
Borrowings	1 805 144	–	–	**1 805 144**
Total equity and liabilities	19 195 884	106 811	(84 655)	**19 173 728**

6. Change in accounting policies continued

Group statement of comprehensive income

For the period ended	November 2018 under previously applied standards R'000	IFRS 9 adjustments R'000	IFRS 15 adjustments R'000	Reported November 2018 R'000
Revenue	12 964 380	–	662 663	**12 301 717**
Other income	76 343	(28 159)	–	**104 502**
Changes in inventories of finished goods	(11 636 449)	–	(642 723)	**(10 993 726)**
Employee compensation and benefit expense	(301 043)	–	–	**(301 043)**
Depreciation, amortisation and impairment charges	(128 441)	–	–	**(128 441)**
Other expenses	(724 620)	7 662	–	**(732 282)**
Operating profit	250 170	(20 497)	19 940	**250 727**
Finance costs	(119 520)	–	(701)	**(118 819)**
Finance income	80 349	–	1 858	**78 491**
Gain on associates and joint venture measured at fair value	13 115	–	–	**13 115**
Share of losses from associates and joint ventures	(201 277)	48 790	(112 029)	**(138 038)**
Net profit before taxation	22 837	28 293	(90 932)	**85 476**
Taxation	(189 118)	(140)	(5 907)	**(183 071)**
Net profit for the period	(166 281)	28 153	(96 839)	**(97 595)**
Other comprehensive income:				
Items reclassified to profit or loss				
Foreign currency translation reserve reclassified to profit or loss	(143)	–	–	**(143)**
Items that may be subsequently reclassified to profit or loss				
Share of other comprehensive income/(loss) of associates and joint ventures	14 114	–	–	**14 114**
Foreign exchange loss on translation of foreign operations	3 058	–	–	**3 058**
Other comprehensive income/(loss) for the period, net of tax	17 029	–	–	**17 029**
Total comprehensive income for the period	(149 252)	28 153	(96 839)	**(80 566)**
Net profit for the period attributable to:	(166 281)	28 153	(96 839)	**(97 595)**
Equity holders of the parent	(185 770)	27 601	(96 839)	**(116 532)**
Non-controlling interest	19 489	552	–	**18 937**
Total comprehensive income for the period attributable to:	(149 252)	28 153	(96 839)	**(80 566)**
Equity holders of the parent	(168 446)	27 601	(96 839)	**(99 208)**
Non-controlling interest	19 194	552	–	**18 642**
Earnings per share for profit attributable to:				
Equity holders (cents)				
– Basic	(20.07)	2.98	(10.46)	**(12.59)**
– Diluted	(18.19)	2.96	(10.39)	**(10.76)**

The change in accounting policies had no impact on the Group cash flow statement.

7. Significant related party transactions and balances

	Six months ended 30 November Unaudited 2018 R'000	Six months ended 30 November Unaudited 2017 R'000	Year ended 31 May Audited 2018 R'000
Sales to related parties			
Cell C Proprietary Limited	**937 558**	146 789	1 100 788
Purchases from related parties			
Cell C Proprietary Limited	**3 613 074**	2 858 002	4 873 215
Interest received from related parties			
2DFine Holdings Mauritius	**12 853**	11 092	21 736
Cell C Proprietary Limited	**229 524**	17 854	96 380
Loans to related parties			
2DFine Holdings Mauritius*	**109 524**	239 028	100 837
Brett Levy*	**33 179**	–	27 503
Cell C Proprietary Limited	**–**	749 279	1 029 626
Mark Levy*	**33 179**	–	27 503
Oxigen Services India Private Limited	**37 752**	36 193	34 017
ZOK Cellular Proprietary Limited	**16 716**	20 950	19 768
Amounts due from related parties included in trade receivables			
3G Mobile (Botswana) Proprietary Limited	**30 346**	44 940	31 688
Cell C Proprietary Limited	**2 895 691**	135 148	2 623 194
Amounts due to related parties included in trade payables			
3G Mobile (Botswana) Proprietary Limited	**744**	9 285	30 799
Cell C Proprietary Limited	**1 615 760**	2 055 178	1 573 472

* *Brett Levy and Mark Levy have signed personal sureties for the loan owed by 2DFine Holdings Mauritius to Gold Label Investments Proprietary Limited. As at November 2018 a combined surety asset of R66 million has been raised (May 2018: R55 million).*

8. Basis of preparation

The condensed unaudited consolidated interim financial statements have been prepared in accordance with the requirements of section 8.57 of the JSE Limited Listings Requirements, the presentation and disclosure requirements of IAS 34 – *Interim Financial Reporting* and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council. The condensed unaudited consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act, No 71 of 2008.

These condensed unaudited consolidated interim financial statements have been prepared in accordance with the going concern principle, under the historical cost convention, adjusted for financial instruments measured at fair value through profit or loss. The condensed unaudited consolidated interim report does not include all the disclosures required for complete annual financial statements prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB). The accounting policies used in preparing the condensed unaudited consolidated interim report are consistent with those applied in the previous annual financial statements, except for the adoption of IFRS 9 – *Financial Instruments* and IFRS 15 – *Revenue from Contracts with Customers*. See note 6 for more detail.

We aim to provide stakeholders with the same additional information that management uses to evaluate the performance of the Group's operations. Accordingly, we make reference to operating profit before depreciation, amortisation and impairment charges (EBITDA). In addition, the Group applies core net profit and core headline earnings as non-IFRS measures in evaluating the Group's performance. This supplements the IFRS measures. Core net profit is calculated by adjusting net profit for the year with the amortisation of intangible assets that arise as a consequence of the purchase price allocations completed in terms of IFRS 3(R) – *Business Combinations*. Core headline earnings are calculated by adjusting core net profit with the headline earnings adjustments required by SAICA Circular 2/2015.

The results for the period ended 30 November 2018 have not been reviewed or audited.