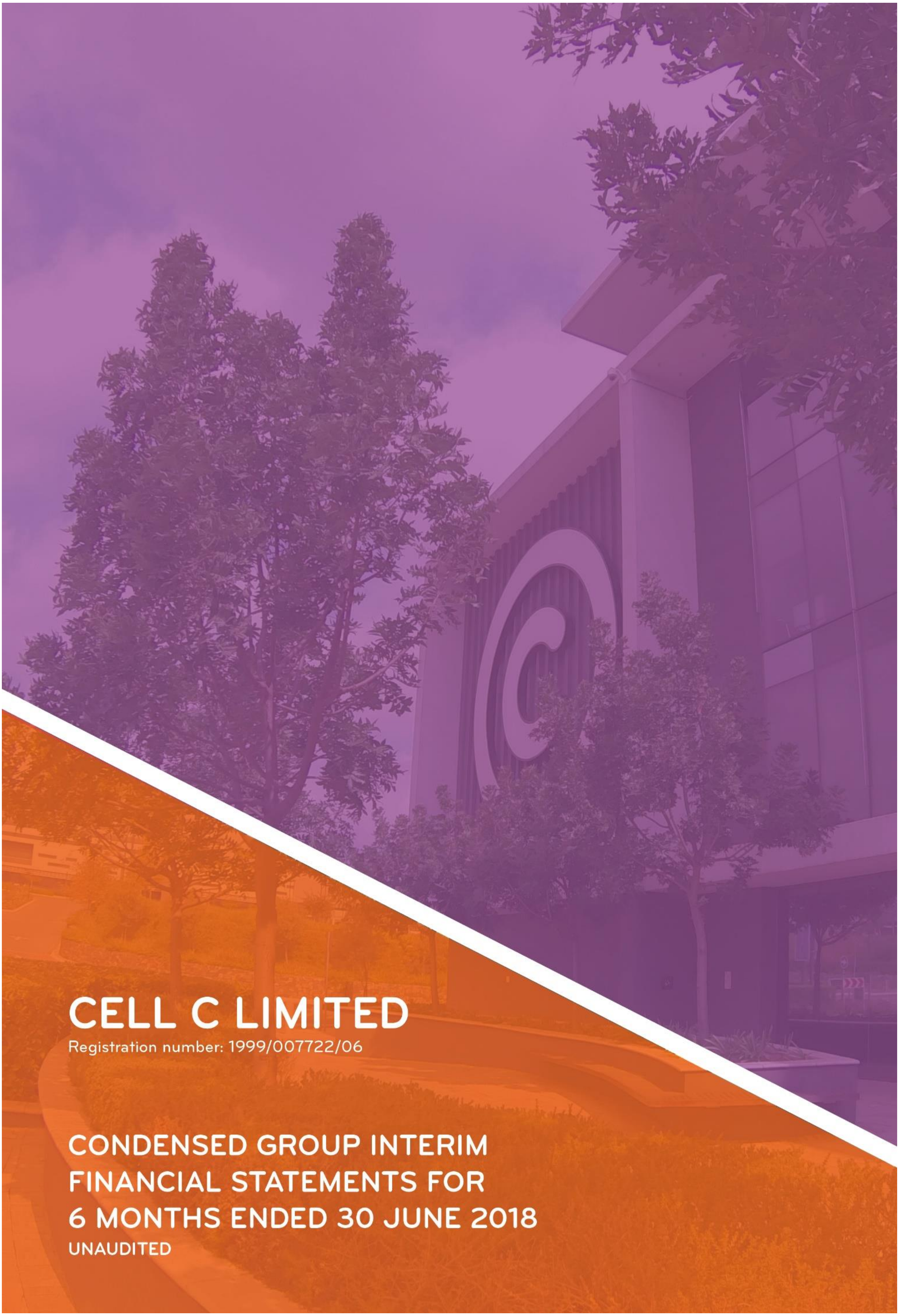

CELL C LIMITED

Registration number: 1999/007722/06

CONDENSED GROUP INTERIM FINANCIAL STATEMENTS FOR 6 MONTHS ENDED 30 JUNE 2018

UNAUDITED

Contents to Condensed Group Interim Financial Statements

Douglas Craigie Stevenson: Joint Acting Chief Financial Officer, was responsible for supervising the preparation of the Condensed Group Interim Financial Statements.

Review of Financial Performance

The financial performance for the half year ended 30 June 2018 ("H1 2018") is positive and encouraging given the tough economic environment. Interim results of Cell C Limited ("Cell C") were historically not published, and this is the first published half-year results post the recapitalisation of Cell C, successfully completed on 2 August 2017. The prior year reported performance is not directly comparable as set out in more detail below.

The accounting policies adopted in the preparation of the Condensed Group Interim Financial Statements are consistent with those followed in the preparation of the Group Annual Financial Statements for the year ended 31 December 2017, except for the adoption of IFRS 15 - *Revenue from contracts with customers* and IFRS 16 - *Leases*. IFRS 15 and 16 are new standards effective as of 1 January 2018 and 1 January 2019 respectively. The Group has elected to early adopt IFRS 16 effective 1 January 2018.

The Group elected to apply IFRS 16 using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2018, with no restatement of comparative information.

The Group has elected to apply IFRS 15 using the cumulative effect method. Therefore, the cumulative effect of adopting IFRS 15 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2018, with no restatement of comparative information.

Therefore, the prior year results (H1 2017) disclosed in these financial statements are shown prior to the effects of IFRS 15 and IFRS16, while the current year results are shown after the effect of these standards. To attain a better understanding of the Group performance, it is our view that the two period are analysed on a comparative basis, whether pre- or post- the effects of these accounting standards.

In order to analyse the Group's financial results compared to the prior year, management performed an analysis, considered the impact and restated the 2017 results. The effects and the restated 2017 balances are presented below for the six months:

6 months ended 30 June 2017 (R millions)	**Note**	**Previously reported**	**Adjustments**	**Restated**
Total revenue	1	7,707	(322)	**7,385**
Direct Expenditure	2	(3,723)	192	**(3,531)**
Net operational expenditure	3	(2,371)	565	**(1,806)**
EBITDA		1,613	435	**2,048**
Depreciation, amortisation and impairment	2,3	(1,007)	(363)	**(1,370)**
EBIT		606	72	**678**
Net finance cost	3,4	(1,619)	(27)	**(1,646)**
Net loss		(1,013)	45	**(968)**

1. Under IFRS 15, the accounting treatment and recognition of subsidies were re-assessed. The subsidy expense incurred from suppliers are now netted against revenue rather than being expensed as finance charges in 2017;
2. Under IFRS 15, costs to fulfil and obtain a customer contract are capitalised as an intangible asset and amortised over the period of the contract. The Group has elected to applied the practical expedient and costs incurred for prepaid contracts are recognised as an expense in the month incurred;
3. Under IFRS 16, leases that have a term greater than 12 months are recognised as finance leases. The right-of-use asset is amortised over the contract period and the lease liability is amortised as a finance lease interest expense;
4. Under IFRS 15, the accounting treatment and recognition of admin and margin costs were reassessed. Admin and margin costs incurred are now recognised as a finance expense in the period incurred as compared to subscriber acquisition costs in 2017.

The Group is in the process of finalising the adoption of IFRS 9 *Financial Instruments.*

The comments below are based on the comparative H1 2017 results which have been restated to give effect to IFRS 15 and IFRS 16.

On a comparative basis, Cell C has seen service revenue grow by 11% although a decline in equipment revenue has resulted in total revenue growth of 5%. However, an increase of 11% in service revenue, which is the core of the business, is impressive in the wake of poor consumer sentiment and a generally sluggish retail environment.

On a comparative basis, EBITDA margin for the period has expanded by approximately 3% (whether compared by "pre-IFRS" or "post-IFRS") which is due to service revenue growth, execution of cost saving initiatives and direct costs not increasing in proportion to revenue growth.

Review of Financial Performance

Despite tough economic conditions, Cell C has managed to grow its total active subscriber base by 600 000 customers to 16.3 million, resulting in total revenue increasing to R7.7 billion from R7.3 billion the previous year. Service revenue increased by 11%, from R6.1 billion to R6.9 billion, which is substantially in excess of market revenue growth.

On a comparative basis, Cell C reported a reduced net loss of R645 million, compared to R968 million in the previous year. The changes in net finance costs were due to the change in the capital structure which materially reduced interest bearing debt but this was offset by the Rand (or hedged US dollar) interest rates now being levied on this debt. In H1 2017 significant gains were made on unhedged foreign debt which will now no longer feature in the business. Going forward this should result in more predictable interest cost in the business.

The first half year performance is traditionally weaker than the second half year due to the seasonal nature of the Cell C business.

Testament to the positive impact of the re-capitalisation, the Group secured additional facilities post the reporting period, drawn down on 2 August 2018. This was partially used to settle fully the short term capex facility due to The Prepaid Company Propriety Limited.

Jose Dos Santos	**Douglas Craigie Stevenson**	**Robert Pasley**
Chief Executive Officer	*Joint Acting Chief Financial Officer*	*Joint Acting Chief Financial Officer*

31 August 2018
Buccleuch

Condensed Group Interim Statement of Profit or Loss and Comprehensive Income

	Note	6 Months ended June 2018 R'000	6 Months ended June 2017 R'000
Revenue	2	7 775 325	7 706 963
Other income		96 504	100 003
Direct expenses		(3 464 028)	(3 723 277)
Operating expenses		(3 473 504)	(3 478 229)
Profit before equity-accounted earnings, net finance cost and tax		**934 297**	**605 460**
Finance income	3	769 719	728 661
Finance costs	4	(2 349 780)	(2 346 821)
Share of profit / (loss) from equity-accounted investee		619	(580)
Loss before tax		**(645 145)**	**(1 013 280)**
Income tax		-	-
Total comprehensive income for the period		**(645 145)**	**(1 013 280)**

Condensed Group Interim Statement of Financial Position

	Note	June 2018 R'000	December 2017 R'000
Assets			
Non-current assets			
Property, plant and equipment	5	12 570 249	8 616 898
Intangible assets	6	1 301 415	1 341 272
Equity-accounted investees		95 024	93 910
Deferred tax asset	7	4 094 290	4 094 290
Derivative non-current financial assets	8	309 038	-
		18 370 016	**14 146 370**
Current assets			
Inventories	9	330 126	426 607
Trade and other receivables	10	3 504 857	4 243 274
Cash and cash equivalents		674 295	132 942
		4 509 278	**4 802 823**
Total assets		**22 879 294**	**18 949 193**
Equity and liabilities			
Equity			
Share capital and share premium		25 501 557	25 501 557
Share-based payment reserve		57	57
Accumulated loss		(22 149 899)	(21 740 741)
		3 351 715	**3 760 873**
Non-current liabilities			
Derivative non-current financial liabilities	8	293 558	108 414
Obligations under leases	11	4 572 864	1 387 152
Operating lease liability	12	-	314 991
Provisions and other employee benefits		374 242	276 463
Interest bearing loans and borrowings		6 256 034	5 837 046
Other non-current liabilities		376 756	497 049
		11 873 454	**8 421 115**
Current liabilities			
Derivative current financial liabilities	8	-	6 364
Obligations under leases	11	892 268	100 567
Provisions and other employee benefits		336 627	292 086
Interest bearing loans and borrowings		1 700 343	986 994
Trade and other payables	13	3 789 573	4 144 223
Other current liabilities		361 678	261 685
Unearned revenue		573 636	975 286
		7 654 125	**6 767 205**
Total liabilities		**19 527 579**	**15 188 320**
Total equity and liabilities		**22 879 294**	**18 949 193**

Condensed Group Interim Statement of Changes in Equity

	Share capital*	Share premium	Share-based payment reserve	Accumulated loss	Total
	R'000	R'000	R'000	R'000	R'000
Balance at 1 January 2017	-	14 168 218	-	(25 855 451)	(11 687 233)
Total comprehensive income	-	-	-	4 114 710	4 114 710
Contributions and distributions					
- Issue of shares	11 333 339	-	-	-	11 333 339
- Equity settled share-based payment	-	-	57	-	57
Balance at 31 December 2017	**11 333 339**	**14 168 218**	**57**	**(21 740 741)**	**3 760 873**
*Application of new accounting standards***					
- Adjustment of initial application of IFRS 16 (net of tax)	-	-	-	314 991	314 991
- Adjustment of initial application of IFRS 15 (net of tax)	-	-	-	(78 995)	(78 995)
Adjusted balance at 1 January 2018	**11 333 339**	**14 168 218**	**57**	**(21 504 745)**	**3 996 869**
Total comprehensive income for the period	-	-	-	(645 154)	(645 154)
Balance at 30 June 2018	**11 333 339**	**14 168 218**	**57**	**(22 149 899)**	**3 351 715**

* Share capital as at 1 January 2017 is not shown due to the amount being less than R1 000.

**Impact on opening retained earnings from the adoption of IFRS 15 - *Revenue from contracts with customers and IFRS 16 - Leases,* effective 1 January 2018.

Condensed Group Interim Statement of Cash Flows

	Note	6 Months ended June 2018 R'000	6 Months ended June 2017 R'000
Cash flows from operating activities			
Cash generated from operating activities	**16**	2 915 659	2 028 751
Cash flows from investing activities			
Finance income received		33 383	22 876
Acquisition of property, plant and equipment		(688 886)	(285 632)
Acquisition of intangible assets		(394 714)	(274 891)
Net cash utilised in investing activities		**(1 050 217)**	**(537 647)**
Cash flows from financing activities			
Proceeds from interest bearing loans and borrowings		659 293	-
Repayment of interest bearing loans and borrowings		(378 043)	-
Repayment of lease obligations		(345 272)	(216 148)
Net cash received from hedging		152 042	-
Finance cost paid		(1 412 109)	(1 394 307)
Net cash utilised by financing activities		**(1 324 089)**	**(1 610 455)**
Net increase/(decrease) in cash and cash equivalents		541 353	(119 351)
Cash and cash equivalents at the beginning of the year		132 942	278 810
Cash and cash equivalents at the end of the year		**674 295**	**159 459**

Notes to the Condensed Group Interim Financial Statements

1 Basis of preparation and significant accounting policies

1.1 Reporting entity

Cell C Limited is a Company domiciled in South Africa. These Condensed Group Interim Financial Statements ("Interim Financial Statements") as at 30 June 2018, comprise the Company and its subsidiaries (together referred to as the Group) and the Group's jointly controlled entities. The Group is primarily involved in the provision of mobile communication, communication related services, video and music content platform.

1.2 Basis of preparation

These Interim Financial Statements have been prepared in accordance with IAS 34 - *Interim Financial Reporting*. They do not include all the information required for a complete set of International Financial Reporting Standards ("IFRS") Financial Statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last Group Annual Financial Statements as at and for the year ended 31 December 2017.

1.2.1 Basis of measurement

1.2.2 Functional and presentation currency

These Interim Financial Statements are presented in South African Rand, which is the Group's functional currency. All financial information presented in Rand has been rounded to the nearest thousand.

1.2.3 Use of estimates and judgements

The preparation of the Interim Financial Statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Group Annual Financial Statements as at and for the year ended 31 December 2017, except for the application of new accounting standards outlined in 1.2.4.

1.2.4 Changes in significant accounting policies

The accounting policies adopted in the preparation of the Condensed Group Interim Financial Statements are consistent with those followed in the preparation of the Group Annual Financial Statements for the year ended 31 December 2017, except for the adoption of new standards effective as of 1 January 2018. The Group has elected to early adopt IFRS 16 - *Leases* standard, that has been issued but is not yet effective (effective for periods beginning on or after 1 January 2019).

Effective 1 January 2018 the Group applies for the first time IFRS 16 - *Leases* and IFRS 15 - *Revenue from contracts with customers.*

The Group is in the process of finalising the adoption of IFRS 9 - *Financial Instruments.* The new standard is effective 1 January 2018 and the impact of initial adoption will be disclosed in the Group Annual Financial Statements for the year ending 31 December 2018.

The Group has elected to defer hedge accounting under IFRS 9 and will continue to use the hedge principles under IAS 39 - *Financial Instruments*: *Recognition and Measurement*, until the standard resulting from the IASB's dynamic risk management project is completed.

As required by IAS 34, the nature and effect of these changes are disclosed in note 20.

The changes in accounting policies are also expected to be reflected in the Group Annual Financial Statements as at and for the year ending 31 December 2018.

Notes to the Condensed Group Interim Financial Statements

1 Basis of preparation and significant accounting policies (continued)

Significant Accounting Policies

1.3 Basis of consolidation

1.3.1 Investments in subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Financial Statements of subsidiaries are included in the Group Financial Statements from the date on which control commences until the date on which control ceases.

1.3.2 Equity-accounted investees

The Group's interests in equity-accounted investees comprise interests in joint ventures.

A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in the joint venture are accounted for using the equity method. They are recognised initially at cost, which includes transaction costs. Subsequent to initial recognition, the Financial Statements include the Group's share of profit or loss and comprehensive income of equity-accounted investees, until the date on which joint control ceases.

1.3.3 Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated on consolidation. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

1.4 Property, plant and equipment

Items of property, plant and equipment are measured at historical cost less accumulated depreciation and accumulated impairment losses.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, or replace a part. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised. The cost of self-constructed assets includes the cost of materials and direct labour. Purchased software that is integral to the functionality of the related equipment is capitalised as part of the equipment.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components).

Depreciation is recognised in profit or loss on the straight-line basis, over the estimated useful lives of each part of an item of property, plant and equipment. The useful lives, depreciation methods and residual values are reassessed on an annual basis for appropriateness, and adjusted as appropriate.

The estimated useful lives for the current and comparative periods are as follows:

Class of property, plant and equipment	**Useful life**
GSM network*	3-20 years
Computer equipment	3 years
Leasehold improvements	5-7 years
Furniture and fixtures	5 years
Equipment	5-10 years
Network and equipment assets – leased	5-20 years
Motor vehicles – leased	4-5 years
Right-of-use assets	2 -15 years

* See note 14 for a change in accounting estimate.

Notes to the Condensed Group Interim Financial Statements

1 Basis of preparation and significant accounting policies (continued)

1.4 Property, plant and equipment (continued)

The depreciation charge for each period is recognised in profit or loss unless it is included in the carrying amount of another asset.

The gain or loss arising from the de-recognition of an item of property, plant and equipment is included in profit or loss when the item is derecognised. The gain or loss arising from the de-recognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Subsequent expenditure relating to an item of property, plant and equipment is capitalised when it is probable that that future economic benefits associated with the expenditure will flow to the Group. All other subsequent expenditure such as routine repairs and maintenance is recognised as an expense in profit or loss, in the period in which it is incurred.

See 1.5 leasing, for the accounting treatment of right-of-use asset.

1.5 Leasing

1.5.1 Policy applicable before 1 January 2018

For contracts entered into before 1 January 2018, the Group determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed the right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
  - the Group had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
  - the Group had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
  - facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output.

In the comparative period as a lessee, the Group classified leases that transfer substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair values and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding contingent rent.

Subsequently, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognised in the Group's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expenses, over the term of the lease.

1.5.2 Policy applicable after 1 January 2018

Determining whether an arrangement contains a lease

At inception of a contract, the Group assesses whether the contract is, or contains a lease. A contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the Group assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive right, then the asset is not identified;

Notes to the Condensed Group Interim Financial Statements

1 Basis of preparation and significant accounting policies (continued)

1.5 Leasing (continued)

1.5.2 Policy applicable after 1 January 2018 (continued)

Determining whether an arrangement contains a lease (continued)

- the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Group has the right to direct the use of the asset. The Group has the right when it has the decision-making rights that are more relevant to changing how and for what purposes the asset is used. In rare cases where the decision about how and for what purposes the asset is used is predetermined, the Group has the right to direct the use of the asset if either:

  - the Group has the right to operate the asset; or
  - the Group designed the asset in a way that predetermined how and for what purposes it will be used.

This policy is applied to contracts entered into, or changed, on or after 1 January 2018.

At inception or on reassessment of a contract that contains lease components, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

1.5.2.1 Group as a Lessee

At the commencement date of a lease, the Group recognises a right-of-use asset and a lease liability.

The Group measures the lease liability at the present value of the lease payments that are not paid at commencement date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amount expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an option renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. The lease liability is remeasured when there is change in the future lease payments arising from a change in an index or rate, if there is a change in the Group’s estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recognised in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Notes to the Condensed Group Interim Financial Statements

1 Basis of preparation and significant accounting policies (continued)

1.5 Leasing (continued)

1.5.2.1 Group as a Lessee (continued)

On initial recognition, the right-of-use assets comprise of:

a) the amount of the initial measurement of the lease liability;
b) any lease payments made at or before the commencement date, less any lease incentives received;
c) any initial direct costs incurred by the Group; and
d) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset and restoration costs.

After the initial recognition date, the Group measures the right-of-use asset at cost:

a) less any accumulated depreciation and any accumulated impairment losses; and
b) adjusted for any re-measurement of the lease liability.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group applies the depreciation requirements in IAS 16 -*Property, Plant and Equipment* in depreciating the right-of-use asset and IAS 36 - *Impairment of Assets* to determine whether the right-of-use asset is impaired and to account for any impairment loss identified.

1.5.2.2 Short-term leases

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

1.5.2.3 Group as a Lessor

The Group classifies each of its leases as either an operating lease or a finance lease.

At inception, a lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.

If an arrangement contains lease and non-lease components, the Group applies IFRS 15 to allocate the consideration in the contract.

The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of ‘other income’.

The Group uses the interest rate implicit in the lease to measure the net investment in the lease.

For finance leases, finance income is recognised over the lease term, based on a pattern reflecting a constant periodic rate of return on the Group's net investment in the lease.

The accounting policies applicable to the Group as a lessor in the comparative period were not different from IFRS 16.

Notes to the Condensed Group Interim Financial Statements

1 Basis of preparation and significant accounting policies (continued)

1.6 Intangible assets

Intangible assets acquired by the Group that have finite useful lives, are measured at cost, less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure on intangible assets are capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other subsequent expenditure is expensed in profit or loss as incurred.

The difference between the net disposal proceeds and the carrying amount of an intangible asset is the gain or loss on disposal of that asset. These gains or losses are recognised in profit or loss.

Computer Software

Computer software that is not considered as an integral part of any hardware equipment is recorded as an intangible asset.

Subscriber acquisition cost

Refer to note 1.10.2.1 and note 1.10.2.2.

Programme and film rights

Purchased programme and film rights are stated at acquisition costs, less accumulated amortisation. Programme material rights, which consists of rights to broadcast programmes, series and films, are recognised at the dates the rights come into license. When payment is deferred beyond normal credit terms, the cost of the asset is the cash price equivalent. The difference between the cash price and the amount payable is recognised as interest expense over the period of the rights.

The rights are amortised based on contracted screenings or expensed when management have confirmed that it is their intention that no further screenings will occur.

Programme material rights contracted by the reporting date in respect of programmes, series and films not yet in licence are disclosed as commitments.

Store buy-back

Store buy-back intangible assets relates to the customer base purchased from previously owned franchise stores.

Indefeasible right of use

Indefeasible right of use relates to the right to access fibre assets in a manner it determines over the useful life.

Customer base

Customer base relates to acquired Fibre-to-the-home customer base.

1.6.1 Amortisation

Amortisation is calculated based on the cost of the asset, less its residual value. Amortisation is recognised in profit or loss on a straight-line basis, over the estimated useful lives of intangible assets, from the date they are available for use.

The estimated useful lives for the current and comparative periods are as follows:

Class of intangible assets	Useful life
Computer software	3 years
Subscriber acquisition cost	2 years
Programme and film rights	1 – 3 years
Store buy-back	2 Years
Indefeasible right of use	20 years
Customer base	2 Years

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Notes to the Condensed Group Interim Financial Statements

1 Basis of preparation and significant accounting policies (continued)

1.7 Impairment of non-financial assets

The carrying amounts of the Group's assets, with the exception of inventories and deferred tax, are reviewed at each reporting date to determine whether there is any indication of impairment. If there is any indication that an asset may be impaired, its recoverable amount is estimated. The recoverable amount is the higher of its fair value less costs to sell and its value in use.

In assessing value in use, the expected future cash flows from the assets are discounted to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

For an asset that does not generate cash inflows that are largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised in profit or loss whenever the carrying amount of the cash-generating unit exceeds its recoverable amount.

A previously recognised impairment loss is reversed if the recoverable amount increases, as a result of a change in the estimates used to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior years.

1.8 Inventories

Inventories are measured at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. The cost of inventories is based on the weighted average cost principle and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

When inventories are sold, the carrying amount of those inventories are recognised as an expense in profit or loss in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in profit or loss, in the period the write-down occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, are recognised as a reduction in the amount of inventories recognised as an expense in profit or loss in the period in which the reversal occurs.

1.9 Financial instruments

1.9.1 Initial recognition

The Group recognises financial assets and financial liabilities in the statement of financial position, when they become a party to the contractual provisions of the instrument.

Financial assets within the scope of IAS 39, are classified as financial assets at fair value through profit or loss or loans and receivables as appropriate. When financial assets are initially recognised, they are measured at fair value. In the case of financial assets not at fair value through profit or loss, plus directly attributable transaction costs. Loans and receivables are subsequently measured at amortised cost less any impairment losses using the effective interest method.

Financial liabilities are initially recognised at fair value less any directly attributable transaction cost. Subsequent to initial recognition, other financial liabilities are measured at amortised cost using the effective interest method.

Notes to the Condensed Group Interim Financial Statements

1 Basis of preparation and significant accounting policies (continued)

1.9 Financial instruments (continued)

1.9.1 Initial recognition (continued)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When such valuation models, with only observable market data as inputs, indicate that the fair value differs from the transaction price, this initial difference, commonly referred to as day one profit or loss, is recognised in profit or loss immediately. If non-observable market data is used as part of the input to the valuation models, any resulting difference between the transaction price and the model value is deferred. The timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement, depending on the nature of the instrument and availability of market observable inputs.

The best evidence of the fair value is evidenced by comparison with other observable current market transactions in the same instrument, without modification or repackaging, or based on valuation techniques such as discounted cash flow models whose variables include only data from observable markets.

The Group determines the classification of its financial assets on initial recognition and where allowed and appropriate, re-evaluates this designation at each reporting date.

All regular way purchases and sales of financial assets are recognised on the trade date, which is the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets, within the period generally established by regulation or convention in the marketplace.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position, when the Group has a legal right to offset the amounts and intends either to settle on a net basis, or to realise the assets and settle the liability simultaneously.

1.9.2 Non-derivative financial instruments

(a) Loans to / (from) Group companies

These include loans to and from shareholders, fellow subsidiaries and joint ventures.

Loans to/(from) Group companies are classified as loans and receivables / other financial liabilities.

(b) Trade and other receivables

Trade and other receivables, which generally have 60 day terms, are recognised and carried at original invoice amount, less an allowance for any uncollectible amounts. Short duration receivables with no stated interest rate are measured at original invoice amount, unless the effect of imputing interest is significant. Due to their short-term nature, the carrying amount of trade receivables approximates their fair value and are classified as loans and receivables.

(c) Trade and other payables

Due to their short-term nature, the carrying amount of trade and other payables carried at amortised cost approximates their fair values at reporting date. Average maturity dates of trade payables range between 30-90 days. Short duration payables with no stated interest rate, are measured at original invoice amount unless the effect of imputing interest is significant.

(d) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and other short-term highly liquid investments, where their original maturities are three months or less, that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. The carrying amount of these assets approximates their fair value and are classified as loans and receivables.

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand, deposits held on call with banks and investments in money market instruments, net of bank overdrafts, all of which are available for use by the Group unless otherwise stated.

Notes to the Condensed Group Interim Financial Statements

1 Basis of preparation and significant accounting policies (continued)

1.9 Financial instruments (continued)

1.9.2 Non-derivative financial instruments (continued)

(e) Borrowings and other non-current liabilities

Borrowings and other non-current liabilities are initially measured at the fair value of the consideration received, less directly attributable costs. Borrowings and other non-current liabilities are subsequently measured at amortised cost, using the effective interest method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings and other non-current liabilities are recognised over the term of the borrowings through the amortisation process, using the effective interest method as explained above. Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process. Borrowings, which are generally at variable rates and are denominated in foreign currencies, are translated at period-end exchange rates.

The fair value of borrowings and other non-current liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

Where a modification of terms is accounted for as an extinguishment, the difference between the fair value of new borrowings and the carrying value of extinguished loans are recognised in other income during the period the transaction occurs.

Any costs or fees incurred are recognised in profit or loss as part of the gain/loss on extinguishment and do not adjust the carrying amount of the new liability/equity instruments unless it can be demonstrated irrefutably that they relate solely to the new liability/equity instrument and in no way to the modification.

(f) Financial guarantees

Financial guarantees provided are designated at fair value through profit and loss in accordance with IAS 39.

1.9.3 Derivative financial instruments including hedging activities

The Group holds derivative financial instruments to hedge its interest rate and foreign currency risk exposures, arising from its long-term borrowings. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently measured at fair value. Derivatives are recognised as assets when the fair value is positive and as liabilities when the fair value is negative.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market value for similar instruments.

It is the policy of the Group not to apply hedge accounting.

Changes in the fair value of derivative financial instruments are recognised in profit or loss as they arise.

1.9.4 Equity instruments

Equity instruments issued by the Group are recognised at the proceeds received, net of direct issuance costs.

(a) Share capital and equity

Ordinary shares are classified as equity.

If the Group re-acquires its own equity instruments, the consideration paid including any directly attributable incremental costs (net of income taxes) on those instruments are deducted from equity until the shares are cancelled or reissued. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Notes to the Condensed Group Interim Financial Statements

1 Basis of preparation and significant accounting policies (continued)

1.9 Financial instruments (continued)

1.9.5 Impairment of non-derivative financial instruments

A financial asset not classified as fair value through profit or loss, is assessed at each reporting date to determine whether there is any objective evidence that a financial asset, or group of financial assets is impaired. A financial asset is considered impaired if objective evidence indicates that one or more events have had a negative effect on the future cash flows of the assets.

The Group considers evidence of impairment for financial assets measured at amortised cost at both a specific asset and collective level. All individually significant assets are assessed for specific impairment. Those found not to be specifically impaired, are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant, are collectively assessed for impairment by grouping together assets with similar risk characteristics. In assessing collective impairment, the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss is recognised in profit or loss.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. Any subsequent reversal of an impairment loss is recognised in profit or loss.

In relation to trade receivables, an allowance for impairment is recognised when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

1.9.6 Non-derivative financial assets and financial liabilities derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the Group is recognised as a separate asset or liability. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled, or expired.

1.10. Revenue

Revenue is recognised when or as the Group transfers control of goods or services to a customer at the amount to which the Group expects to be entitled. Depending on whether certain criteria are met, revenue is recognised:

- over time, in a manner that best reflects the delivery of the Group's performance obligations; or
- at a point in time, when control of the goods or services is transferred to the customer.

The Group applies the five-step model as per IFRS 15 - *Revenue from contracts with customers,* to determine when to recognise revenue and at what amount. The following approach is used:

1) Identify the contract with a customer;
2) Identify the performance obligations in the contract;
3) Determine the transaction price;
4) Allocate the transaction price to the performance obligations in the contract; and
5) Recognise revenue.

Notes to the Condensed Group Interim Financial Statements

1 Basis of preparation and significant accounting policies (continued)

1.10. Revenue (continued)

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties.

The Group accounts for a contract with a customer only when; there is evidence of an arrangement, the Group can identify each party's rights regarding the goods and services to be transferred, the contract has commercial substance and collectability is reasonably assured.

The Group provides both service and non-service revenue. Service revenue consists of: prepaid, broadband, wholesale, Fibre-to-the home, incoming, content and contract offerings. Non-service revenue consists of mobile equipment revenue.

1.10.1 Prepaid revenue

Amounts collected for prepaid airtime are deferred as unearned revenue in the statement of financial position and are recognised as revenue at the earlier of use or expiry.

In certain circumstances, the voucher is not redeemed or utilised and this is referred to as breakage. Revenue is recognised from breakage when the Group expects to be entitled to the amount, when it is highly probable, and that it would not result in a significant reversal of the cumulative revenue recognised.

Breakage can be recognised based on the pattern of prepaid usage or when the likelihood of the customer exercising its remaining rights become remote.

1.10.2 Contract revenue, including contract broadband and Fibre revenue

For contracts with subscriptions, revenue is recognised when the performance obligation is satisfied by the Group.

Payments for subscriptions received in advance, are recognised as a contract liability. The amount is recognised as revenue when the performance obligation is satisfied.

Products and services may be sold separately or in a bundled package.

For bundled packages, the Group accounts for individual products and services separately if they are distinct i.e. if a product and service is separately identifiable from other items in the bundled package and if the customer can benefit from it. The consideration is allocated between separate products and services in a bundle based on the stand-alone selling prices. The stand-alone selling prices are determined based on the list prices at which the Group sells the mobile devices and telecommunication services.

1.10.2.1 Cost to obtain a contract

The Group capitalises incremental costs incurred as a result of obtaining a contract as an intangible asset. The intangible asset is amortised over the term of the contract and assessed annually for impairment.

The incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained.

On sale of a prepaid package, costs including the cost of the SIM-card and commission are recognised as customer acquisition costs in profit or loss.

Incremental cost to obtain a contract is not capitalised as an intangible asset if the period of amortisation would not exceed one year.

Notes to the Condensed Group Interim Financial Statements

1 Basis of preparation and significant accounting policies (continued)

1.10. Revenue (continued)

1.10.2.2 Cost of fulfilling a contract

The Group recognises cost of fulfilling a contract as an intangible asset only when the following criteria is met:

- the costs relate directly to an existing contract or specific anticipated contract;
- generates or enhances resources of the Group that will be used to satisfy performance obligations in the future; and
- are expected to be recovered.

The intangible asset is amortised over the term of the contract and assessed annually for impairment.

1.10.3 Interconnection revenue

Interconnection revenue for call termination is recognised in the period the traffic occurs. Revenue related to on-network, network-to-network, roaming and international call connection services is recognised when the call is placed or connection provided. Revenue related to products and value-added services is recognised upon delivery and acceptance of the product or service.

1.10.4 Wholesale revenue

Wholesale revenue is recognised in the period when the services are utilised.

1.10.5 Content revenue

Content purchased is recognised as revenue when the content is transferred to the customer profile.

Subscription revenue arises from the monthly billing of subscribers for pay-television services provided. Revenue is recognised in the month the service is provided. Subscriptions received in advance is recorded as deferred income and recognised in the month the service is provided.

1.10.6 Mobile equipment revenue

Mobile equipment sold for cash is recognised when the handset is delivered to the customer. Revenue is measured net of returns and value added tax.

Handsets included in a contract package are supplied to a customer by an external vendor. The risk and rewards of ownership are transferred to the external vendor when a customer activates or renews a contract product which meet specific criteria.

Handsets included in a contract package which do not meet the contract product criteria are recognised when the handset is delivered to the customer. Revenue is measured net of discounts, returns and value added tax.

Significant judgement is required in determining whether the Group is acting as an agent or a principle. The Group has performed an assessment as to whether it acts as an agent or principle in the sale of handsets bundled in contracts.

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent). The Group determines whether it is a principal or an agent for each specified good or service promised to the customer.

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The following indicators are used to evaluate whether the entity controls a specific good or service before it is transferred to the customer:

- the Group is primary responsible for fulfilling the promise to provide the specified good;
- the Group has inventory risk before or after the specified good is transferred to the customer; and
- the entity has the discretion in establishing the price for the specified good.

Notes to the Condensed Group Interim Financial Statements

1 Basis of preparation and significant accounting policies (continued)

1.10. Revenue (continued)

1.10.6 Mobile equipment revenue (continued)

Where the Group acts in its capacity as principal for the sale of goods or the rendering of services, as it does in the sale of physical prepaid airtime, data and the sale of mobile equipment, revenue is recognised at the fair value of the consideration receivable net of discounts and taxes. Where the Group acts in its capacity as an agent (i.e. third party content), revenue recorded is the fair value of commission received or receivable.

In certain circumstances, revenue is split into separately identifiable components and recognised when the related components are delivered. The value of each component is determined using fair value.

1.10.7 Third part content providers

Based on assessments, the Group acts as an agent in the transaction and revenue is recognised at the net amount due to the Group.

Judgement is required in determining whether the Group is acting as an agent or a principle.

1.11 Provisions and contingencies

A provision for onerous contracts is measured at the present value of the lower of the expected cost of terminating the contract and the expected cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with the contract.

1.12 Finance income

Finance income comprises interest income, foreign exchange gains and fair value gains on financial assets at fair value through profit or loss.

Interest is recognised as it accrues in profit or loss, taking into account the principal outstanding and the effective rate over the period to maturity, when it is probable that such income will accrue to the Group.

1.13 Finance costs

Finance costs comprises, interest expense on interest bearing bonds and borrowings, foreign exchange losses, subsidy on handsets sold to contract customers, fair value losses on financial assets at fair value through profit or loss and impairment losses recognised on financial assets.

Finance costs are recognised in profit or loss using the effective interest rate method.

1.14 Tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, or other comprehensive income, in which case it is recognised in equity or in other comprehensive income.

Current tax is the expected tax payable, or receivable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and joint arrangements entities to the extent that it is probable that they will not reverse in the foreseeable future.

Notes to the Condensed Group Interim Financial Statements

1 Basis of preparation and significant accounting policies (continued)

1.14 Tax (continued)

In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax assets are recognised on tax losses to the extent that it is probable that future taxable profits will be generated.

The Group withholds dividends tax on behalf of its Shareholders that are not exempt at a rate of 20% on dividends declared. Amounts withheld are not recognised as part of the Group's tax charge but rather as part of the dividend paid recognised directly in equity. Where withholding tax is withheld on dividends received, the dividend is recognised at the gross amount with the related withholdings tax recognised as part of tax expense unless it is otherwise reimbursable in which case it is recognised as an asset.

1.15 Foreign currency

Transactions in foreign currencies are measured at the rate of exchange ruling at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. Gains and losses arising on translation are recognised in profit or loss.

1.16 Employee benefits

1.16.1 Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis. The cost of all short-term employee benefits is recognised during the period in which the employee renders the related service.

The accruals for employee entitlements to wages, salaries and annual leave, represent the amount, which the Group has a present obligation to pay as a result of employees' services provided up to the reporting date.

1.16.2 Other long-term employee benefits

The cost of long-term employee benefits is recognised over the period in which the related services are rendered. Specifically for awards that are not back-end loaded and which include a substantive stay period, the liability at each reporting date is equal to any instalments that are due and payable in terms of the plan rules.

1.16.3 Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions to a separate entity and will have no legal or constructive obligation to pay further amounts. The Group contributes to a defined contribution plan. Contributions to defined contribution funds are recognised in profit or loss in the periods during which related services are rendered by employees.

Notes to the Condensed Group Interim Financial Statements

1 Basis of preparation and significant accounting policies (continued)

1.17 Borrowing costs

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised as an expense in profit or loss using the effective interest method.

1.18 Share-based payments

The Group operates equity and cash-settled share-based compensation plans under which the entity receives services from employees as consideration for equity instruments (options and share appreciation rights ("SARs") of the Group).

The grant-date fair value of equity-settled share-based payment arrangements granted to employees is generally recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The fair value of the amount payable to employees in respect of SARs, which are settled in cash, is recognised as an expense with a corresponding increase in liabilities, over the period during which the employees become unconditionally entitled to payment. The liability is remeasured at each reporting date and at settlement date based on the fair value of the SARs. Any changes in the liability are recognised in profit or loss.

Where a scheme allows settlement in cash or in shares that are mutually exclusive and in which only one alternative would be accounted for under IFRS 2, then the entire arrangement is accounted for as a share-based payment. In addition, in determining whether the scheme will be settled in cash or shares, an assessment of the likelihood of the various possible outcomes is considered.

1.19 Segment reporting

The Group determines and presents operating segments based on the information that is internally provided to the Group Executive Committee.

The Group has reportable segments that are used by the Executive Committee to make key operating decisions, allocate resources and assess performance. The reportable segments are differentiated and grouped by means of the nature of the product it provides, namely Prepaid, Contract, Mobile Virtual Network Operators ("MVNO"), Fibre-to-the-home ("FTTH"), Equipment, Content, Incoming revenues and Other income. The segments' performance are reported and reviewed only to the extent of the revenue, while costs are reported on a total basis and are not reviewed or assessed based on the segments.

Operating segments are reported in a manner consistent with the internal reporting provided to the Group Executive Committee.

Notes to the Condensed Group Interim Financial Statements

	6 months ended June 2018 R'000	6 months ended June 2017 R'000

2 Revenue

	6 months ended June 2018 R'000	6 months ended June 2017 R'000
Gross service revenue	7 143 646	6 623 380
Less: Volume discounts	(282 411)	(306 512)
Service revenue	**6 861 235**	**6 316 868**
Non-service revenue	914 090	1 390 095
Total revenue	**7 775 325**	**7 706 963**

Cell C has adopted IFRS 15 effective 1 January 2018. Under IFRS 15, subsidies received from Communications Equipment Company Proprietary Limited are recognised net of revenue as opposed to finance charges in 2017. The Group also took prudent steps to tighten credit-vetting criteria due to tough economic conditions.

3 Finance income

	6 months ended June 2018 R'000	6 months ended June 2017 R'000
Interest income	33 383	22 876
Foreign exchange gains		
- realised	248 819	91 196
- unrealised	487 517	614 589
	769 719	**728 661**

4 Finance costs

	6 months ended June 2018 R'000	6 months ended June 2017 R'000
Interest expense	722 831	1 430 206
Interest on leases*	446 883	127 370
Financing costs	80 093	81 235
Foreign exchange losses		
- realised	499 297	241 338
- unrealised	600 676	466 672
	2 349 780	**2 346 821**

*Increase in the period ended June 2018 as a result of adoption of IFRS 16 - *Leases.*

During the 6 months ended 30 June 2018, the Rand depreciated against the US Dollar ("USD") which resulted in significant foreign exchange losses. At 30 June 2018, the Rand was R13.72 to the USD compared to R12.39 at 31 December 2017. In addition the realised loss includes a once-off cost of a hedge instrument to the value of R140 million.

Notes to the Condensed Group Interim Financial Statements

5 Property, plant and equipment

	June 2018			December 2017		
	Cost	**Accumulated depreciation and impairment**	**Carrying amount**	**Cost**	**Accumulated depreciation and impairment**	**Carrying amount**
	R'000	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**
GSM network	16 271 645	(9 249 412)	7 022 233	15 697 706	(8 835 475)	6 862 231
Computer equipment	1 055 419	(878 511)	176 908	1 036 649	(835 403)	201 246
Leasehold improvements	626 961	(465 215)	161 746	602 156	(439 741)	162 415
Furniture and fixtures	56 540	(46 456)	10 084	56 598	(42 934)	13 664
Equipment	309 096	(278 120)	30 976	306 513	(269 794)	36 719
Network and equipment assets - leased	1 918 778	(559 557)	1 359 221	1 846 238	(525 952)	1 320 286
Motor vehicles - leased	48 442	(35 448)	12 994	63 741	(43 404)	20 337
Rights-of-use of assets	4 217 114	(421 027)	3 796 087	-	-	-
	24 503 995	**(11 933 746)**	**12 570 249**	**19 609 601**	**(10 992 703)**	**8 616 898**

Notes to the Condensed Group Interim Financial Statements

5 Property, plant and equipment (continued)

	GSM network	Computer equipment	Leasehold improve- ments	Furniture and fixtures	Equipment	Network and equipment assets - leased	Motor vehicles - leased	*Right-of-use assets	Total
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Reconciliation of property, plant and equipment									
Opening balance	6 966 223	134 590	151 345	21 126	42 096	1 391 690	44 039	-	8 751 109
Additions	1 075 585	59 210	57 920	-	5 366	215 447	11 500	-	1 425 028
Disposals	(4 499)	-	-	-	-	(149 791)	(4 167)	-	(158 457)
Transfers**	(17 091)	67 696	86	-	6 374	1 046	-	-	58 111
Depreciation	(1 157 987)	(60 250)	(46 936)	(7 462)	(17 117)	(138 106)	(31 035)	-	(1 458 893)
Balance at 31 December 2017	**6 862 231**	**201 246**	**162 415**	**13 664**	**36 719**	**1 320 286**	**20 337**	**-**	**8 616 898**
Opening balance	6 862 231	201 246	162 415	13 664	36 719	1 320 286	20 337	-	8 616 898
Change in accounting policy*	-	-	-	-	-	-	-	4 217 114	4 217 114
Additions	631 112	21 793	24 908	-	2 383	270 712	8 033	-	958 941
Disposals	(1 856)	-	-	-	-	(128 383)	(3 963)	-	(134 202)
Transfers**	1 873	(3 018)	(127)	-	219	(279)	-	-	(1 332)
Impairment	(7 834)	-	-	-	-	-	-	-	(7 834)
Depreciation	(463 293)	(43 113)	(25 450)	(3 580)	(8 345)	(103 115)	(11 413)	(421 027)	(1 079 336)
Balance at 30 June 2018	**7 022 233**	**176 908**	**161 746**	**10 084**	**30 976**	**1 359 221**	**12 994**	**3 796 087**	**12 570 249**

*Additions of Right-of-use assets in the current period is as a result of the adoption of IFRS 16 - *Leases.* See note 20 for more details.
** Transfer from/(to) intangible assets.

Assets pledged as security

The assets of Cell C Limited and its subsidiaries serve as security, in the Groups security package.

Notes to the Condensed Group Interim Financial Statements

6 Intangible assets

	June 2018			December 2017		
	Cost	Accumulated amortisation and impairment	Carrying amount	Cost	Accumulated amortisation and impairment	Carrying amount
	R'000	R'000	R'000	R'000	R'000	R'000
Computer software	2 754 467	(2 417 438)	337 029	2 658 881	(2 353 953)	304 928
Subscriber acquisition cost	1 120 866	(658 872)	461 994	1 033 981	(612 393)	421 588
Programme and film rights	530 537	(149 232)	381 305	528 313	(50 347)	477 966
Store buy-back	33 194	(15 253)	17 941	33 074	(7 900)	25 174
Indefeasible rights of use (IRU)	153 580	(73 088)	80 492	153 580	(70 463)	83 117
Customer base	32 837	(10 183)	22 654	29 480	(981)	28 499
	4 625 481	**(3 324 066)**	**1 301 415**	**4 437 309**	**(3 096 037)**	**1 341 272**

Notes to the Condensed Group Interim Financial Statements

6 Intangible assets (continued)

	Computer software	Subscriber acquisition cost	Programme and film rights	Store buy-back	Indefeasible rights of use (IRU)	Customer base	Total
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Reconciliation of intangible assets							
Opening balance	302 091	373 682	-	-	120 608	-	796 381
Transfers***	(64 745)	-	-	-	6 634	-	(58 111)
Additions	193 014	420 442	528 313	33 074	5 656	29 480	1 209 979
Impairment	-	(150 103)	-	-	(42 241)	-	(192 344)
Amortisation	(125 432)	(222 433)	(50 347)	(7 900)	(7 540)	(981)	(414 633)
Balance at 31 December 2017	**304 928**	**421 588**	**477 966**	**25 174**	**83 117**	**28 499**	**1 341 272**
Opening balance	304 928	421 588	477 966	25 174	83 117	28 499	1 341 272
Change in accounting policy*	-	(78 995)	-	-	-	-	(78 995)
Transfers ***	1 332	-	-	-	-	-	1 332
Additions	94 254	293 973	2 224	120	-	3 357	393 928
Impairment**	-	(47 418)	-	-	-	-	(47 418)
Amortisation	(63 485)	(127 154)	(98 885)	(7 353)	(2 625)	(9 202)	(308 704)
Balance at 30 June 2018	**337 029**	**461 994**	**381 305**	**17 941**	**80 492**	**22 654**	**1 301 415**

*Change in accounting policy due to adoption of new accounting standard IFRS 15, effective 1 January 2018. See note 20 for more details.

** An impairment to subscriber acquisition cost was recognised due to customer churn.

*** Transfer from/(to) property plant and equipment assets.

Notes to the Condensed Group Interim Financial Statements

7 Deferred tax asset

	June 2018	December 2017
	R'000	**R'000**
Reconciliation of deferred tax asset		
At beginning of the year	4 094 290	1 983 290
Current year movements	-	2 111 000
Closing balance	**4 094 290**	**4 094 290**
Deferred tax		
Property, plant and equipment	19 840	19 840
Tax losses	3 375 355	3 375 355
Provisions	260 163	260 163
Prepayments	(28 046)	(28 046)
Other temporary differences	153 787	153 787
Income received in advance	313 191	313 191
	4 094 290	**4 094 290**

The deferred tax asset is recognised in respect of deductible temporary differences and tax losses to the extent that it is probable that future taxable profit will be available. The Directors are satisfied that the deductible temporary differences will be utilised in the short term. The utilisation of the assessed losses is based on the projected profits for the next seven years reflected in the business plan approved by management and the Board. The recoverability of the balance has been considered and has not changed from the 2017 year end balance.

8 Derivative financial assets/(liabilities)

The following information relates to derivative financial instruments:

	June 2018		December 2017	
	Assets	**Liabilities**	**Assets**	**Liabilities**
	R'000	**R'000**	**R'000**	**R'000**
USD loan cross currency swap	31 790	-	-	(487 615)
USD bond cross currency swap	-	(293 558)	-	(184 603)
FEC	-	-	-	(6 364)
Margin call account	277 248	-	429 064	-
Option	-	-	134 740	-
	309 038	**(293 558)**	**563 804**	**(678 582)**
Current	-	-	-	(6 364)
Non-current	309 038	(293 558)	-	(108 414)
	309 038	**(293 558)**	**-**	**(114 778)**

Notes to the Condensed Group Interim Financial Statements

8 Derivative financial assets/(liabilities) (continued)

Derivatives

The USD loan cross currency swap was entered into to hedge 100% of the principal and coupon repayments on the USD denominated China Development Bank facility in 2017. The notional value of the hedge in 2018 is $131.003 million.

The USD bond cross currency swap was entered into to hedge 100% of the principal and coupon repayments on the USD denominated senior secured bonds in 2017. The notional value of the hedge in 2018 is $184 million.

The derivatives are classified as a current asset or liability, if the maturity of the item is less than 12 months.

	Notional value June 2018 FC'000	Fair value June 2018 R'000	Maturity dates	Hedging instrument
USD Denominated				
China Development Bank facility	131 003	31 790	1 August 2020	USD loan cross currency swap
Senior secured bonds	184 000	(293 558)	3 August 2020	USD bond cross currency swap

Fair value hierarchy of financial assets at fair value

For financial assets recognised at fair value, disclosure is required of a fair value hierarchy which reflects the significance of the inputs used to make the measurements.

Level 1 represents those assets which are measured using unadjusted quoted prices for identical assets.

Level 2 applies to inputs other than quoted prices that are observable for the assets either directly (as prices) or indirectly (derived from prices).

Level 3 applies to inputs which are not based on observable market data.

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions at an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Specific valuation techniques used to value financial instruments include:

- quoted market prices or dealer quotes for similar instruments;
- the fair value of interest rate swaps is calculated as the present value of estimated future cash flows based on observable yield curves;
- the fair value of forward foreign exchange contracts is determined using forward exchange rates at the end of the reporting period, with the resulting value discounted back to present value; and
- other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

Notes to the Condensed Group Interim Financial Statements

8 Derivative financial assets/(liabilities) (continued)

	June 2018 R'000	December 2017 R'000
Level 2		
FEC	-	(6 364)
Option	-	134 740
Margin call account	277 248	429 064
USD loan cross currency swap - Goldman Sachs International	31 790	(487 615)
USD bond cross currency swap - Standard Bank Limited	(293 558)	(184 603)
	15 480	**(114 778)**
Level 3		
Cross currency interest rate swap	-	-
Reconciliation of level 3 measurement of financial assets/(liabilities)		
Opening balance	-	(337 063)
Gains or losses in profit or loss	-	517 272
Day one loss amortised to finance costs in the statement of comprehensive income	-	(180 209)
	-	-

9 Inventories

Merchandise	359 962	474 769
Provision for obsolete stock	(29 836)	(48 162)
	330 126	**426 607**

10 Trade and other receivables

Trade and other receivables	3 171 193	3 952 004
Prepayments and other sundry debtors	503 590	414 173
Allowance for impairment	(169 926)	(122 903)
	3 504 857	**4 243 274**

Notes to the Condensed Group Interim Financial Statements

11 Obligations under leases

	*June 2018 R'000	**December 2017 R'000
Maturity analysis - contractual undiscounted cash flows		
Less than one year	1 705 980	324 162
One to five years	5 086 895	1 111 532
More than five years	2 524 078	1 702 713
Total undiscounted lease liabilities	**9 316 953**	**3 138 407**
Minimum lease liabilities included in the statement of financial position	**5 465 132**	**1 487 719**
Current	892 268	100 567
Non-current	4 572 864	1 387 152

* Lease obligations under IFRS 16, see note 20.2.
** Accounted for under IAS 17 and relates only to obligations under finance lease.

12 Operating lease liability

	June 2018 R'000	December 2017 R'000
Operating lease liability	-	**314 991**
Operating lease liability reconciliation		
Balance as at 31 December 2017	-	314 991
Change in accounting policy*	-	(314 991)
Balance as at 1 January 2018	-	-

*Change in accounting policy as a result of the adoption of IFRS 16 - *Leases.* See note 20 for details.

13 Trade and other payables

Trade payables	1 859 541	1 656 577
Accrued expenses	1 930 032	2 487 646
	3 789 573	**4 144 223**

Notes to the Condensed Group Interim Financial Statements

14 Change in accounting estimate

During the period, the Group conducted a review of its GSM network assets, which resulted in changes in the expected average useful life of GSM network assets as the previous pattern of depreciation differs from the actual pattern of economic benefits derived. Effective 1 January 2018, the average useful life of GSM network has been revised from 3-10 years to 3-20 years. Depreciation was reduced by R105 million for the period ended 30 June 2018. The effect of these changes on actual depreciation is as follows:

Effect of change in estimate for the period ended 30 June 2018

	R'000
Depreciation expense - old basis	242 885
Depreciation expense - new basis*	137 390
Total decrease in depreciation for the current period ended 30 June 2018	**105 495**

* recognised in profit before tax for the period.

15 Financial instruments

15.1 Categories of financial instruments

Financial assets by category
The accounting policies for financial assets have been applied to the line items below:

	Loans and receivables	**Fair value through profit or loss**	**Total carrying value**	**Fair value**
	R'000	**R'000**	**R'000**	**R'000**
At 30 June 2018				
Derivative financial assets - non-current	-	309 038	309 038	309 038
Trade and other receivables	3 131 791	-	3 131 791	3 131 791
Cash and cash equivalents	674 295	-	674 295	674 295
	3 806 086	**309 038**	**4 115 124**	**4 115 124**

	Loans and receivables	**Fair value through profit or loss**	**Total carrying value**	**Fair value**
	R'000	**R'000**	**R'000**	**R'000**
At 31 December 2017				
Trade and other receivables	3 851 181	-	3 851 181	3 851 181
Cash and cash equivalents	132 942	-	132 942	132 942
	3 984 123	**-**	**3 984 123**	**3 984 123**

Notes to the Condensed Group Interim Financial Statements

15 Financial instruments (continued)

15.1 Categories of financial instruments (continued)

Financial liabilities by category

The accounting policies for financial liabilities have been applied to the line items below:

	Financial liabilities at amortised cost	Fair value through profit or loss	Total carrying value	Fair value
	R'000	R'000	R'000	R'000
At 30 June 2018				
Loans and borrowings - non-current	6 256 034	-	6 256 034	6 256 034
Loans and borrowings - current	1 700 343	-	1 700 343	1 700 343
Obligations under leases - non-current	4 572 864	-	4 572 864	4 572 864
Obligations under leases - current	892 268	-	892 268	892 268
Derivative financial liabilities - non-current	-	293 558	293 558	293 558
Employee benefits	710 869	-	710 869	710 869
Other liabilities	738 434	-	738 434	738 434
Trade and other payables	3 685 079	-	3 685 079	3 685 079
	18 555 891	**293 558**	**18 849 449**	**18 849 449**

The accounting policies for financial liabilities have been applied to the line items below:

	Financial liabilities at amortised cost	Fair value through profit or loss	Total carrying value	Fair value
At 31 December 2017	R'000	R'000	R'000	R'000
Loans and borrowings - non-current	5 837 046	-	5 837 046	5 837 046
Loans and borrowings - current	986 994	-	986 994	986 994
Obligations under leases - non-current	1 387 152	-	1 387 152	1 387 152
Obligations under leases - current	100 567	-	100 567	100 567
Derivative financial liabilities - non-current	-	108 414	108 414	108 414
Derivative financial liabilities - current	-	6 364	6 364	6 364
Employee benefits	568 549	-	568 549	568 549
Other liabilities	531 181	227 553	758 734	758 734
Trade and other payables	4 144 223	-	4 144 223	4 144 223
	13 555 712	**342 331**	**13 898 043**	**13 898 043**

Notes to the Condensed Group Interim Financial Statements

16 Cash generated from operating activities

Cash generated from operating activities is calculated below:

	6 Months ended June 2018	6 Months ended June 2017
	R'000	R'000
Profit before equity accounted earnings, net finance cost and tax	934 297	605 460
Adjustments for:		
Profit on disposal of property, plant and equipment	(30 232)	(20 227)
Depreciation and amortisation of non-current assets	1 387 875	965 571
Impairment of intangible assets / property, plant and equipment	56 602	42 241
Movements in provisions	142 325	(33 496)
Movements in operating lease liabilities	-	11 003
	2 490 867	**1 570 552**
Changes in working capital		
Trade and other receivables	1 206 203	(905 391)
Inventories	96 481	(162 403)
Trade and other payables	(354 835)	1 257 567
Unearned revenue	(401 650)	244 628
Other liabilities	(121 407)	23 798
	424 792	**458 199**
Total cash generated from operating activities	**2 915 659**	**2 028 751**

17 Related party disclosures

The following Shareholders collectively hold 100% of the Company's shares issued at 30 June 2018:

Shareholder	Percentage ownership
The Prepaid Company Proprietary Limited	45%
Net1 Applied Technologies South Africa Proprietary Limited	15%
Albanta Trading 109 Proprietary Limited	5%
Cedar Cellular Investment 1 (RF) Proprietary Limited	11.8%
Magnolia Cellular Investment 2 (RF) Proprietary Limited	16%
Yellowwood Cellular Investment 3 (RF) Proprietary Limited	2.2%
G. Mackinnon	1.25%
H. Coverly	0.625%
J. Dos Santos	1.875%
R. Pasley	1.25%

Notes to the Condensed Group Interim Financial Statements

17 Related party disclosures (continued)

The following transactions were carried out with related parties:

	June 2018 R'000	December 2017 R'000
Purchases from related parties		
Fiberco	20 074	19 787
Mobile Number Portability Company Proprietary Limited	6 034	14 512
Communications Equipment Company Proprietary Limited	1 097 514	2 046 268
DNI Retail Proprietary Limited	75 677	152 797
Metrofile Proprietary Limited	348	859
National Airways Corporation Proprietary Limited	82	202
Transaction Junction Proprietary Limited	2 955	7 531
Transaction Capital Limited	680	-
Cellfind Proprietary Limited	2 904	-
Via Media Proprietary Limited	831	-
Simigenix Proprietary Limited	67	-
South African Rugby Legends Association*	3 000	3 949
The Prepaid Company Proprietary Limited	-	460 262
	1 210 166	**2 706 167**
*Sponsorship		
Sales to related parties		
The Prepaid Company Proprietary Limited	2 693 779	6 845 153
Blue Label Connect Proprietary Limited	-	1 887
Communications Equipment Company Proprietary Limited	1 217 275	1 915 821
DNI Retail Proprietary Limited	66 886	-
Blue Label Distribution Proprietary Limited	17	-
Cellfind Proprietary Limited	15 513	-
Panacea Mobile Proprietary Limited	82	-
Via Media Proprietary Limited	1 767	-
Simigenix Proprietary Limited	18 395	-
	4 013 714	**8 762 861**
Commissions and administration fees paid to related parties		
Blue Label Connect Proprietary Limited	92 445	170 343
Selldirect Marketing Proprietary Limited	4 974	10 128
DNI Retail Proprietary Limited	187 125	441 091
The Prepaid Company Proprietary Limited	51	120
The Postpaid Company Proprietary Limited	92	3 236
Blue Label Data Solutions Proprietary Limited	2 866	7 106
Communications Equipment Company Proprietary Limited	48 461	76 633
Payfast Proprietary Limited	-	6
	336 014	**708 663**
Commissions and administration fees received from related parties		
Airvantage Proprietary Limited	**41 188**	-
	41 188	**-**
Discounts and rebates paid to related parties		
The Prepaid Company Proprietary Limited	314 364	439 169
DNI Retail Proprietary Limited	17 412	42 254
	331 776	**481 423**
Interest expense to related parties		
Communications Equipment Company Proprietary Limited	(172 588)	(1 170 232)
The Prepaid Company Proprietary Limited	(71 539)	(26 112)
	(244 127)	**(1 196 344)**
Interest income from related parties		
CellSaf Proprietary Limited	34	68
	34	**68**

Notes to the Condensed Group Interim Financial Statements

17 Related party disclosures (continued)	**June 2018 R'000**	**December 2017 R'000**
Marketing fees paid to related parties		
The Prepaid Company Proprietary Limited	149 348	125 000
	149 348	**125 000**
Amounts due to related parties included in other liabilities		
Communications Equipment Company Proprietary Limited	227 552	227 552
	227 552	**227 552**
Amounts due to related parties included in Trade and other payables		
Mobile Number Portability Company Proprietary Limited	1 239	1 174
Fiberco	3 919	3 297
The Prepaid Company Proprietary Limited	94 066	11
The Postpaid Company Proprietary Limited	17	22
DNI Retail Proprietary Limited	33 428	57 809
Metrofile Proprietary Limited	67	103
Blue Label Connect Proprietary Limited	19 877	16 008
Selldirect Marketing Proprietary Limited	1 014	590
Transaction Capital Limited	398	-
Transaction Junction Proprietary Limited	1 751	1 130
Blue Label Data Solutions Proprietary Limited	476	457
Via Media Proprietary Limited	205	-
Simigenix Proprietary Limited	34	-
Cellfind Proprietary Limited	1 243	-
Communications Equipment Company Proprietary Limited	328 162	664 873
	485 896	**745 474**
Amounts due from related parties included in Trade and other receivables		
Oger Telecoms South Africa Proprietary Limited	206	186
CellSaf Proprietary Limited	3 473	3 438
Massmart Holdings Proprietary Limited	6 207	6 214
Blue Label Connect Proprietary Limited	-	194
The Prepaid Company Proprietary Limited	1 242 045	1 558 839
Via Media Proprietary Limited	203	-
Simigenix Proprietary Limited	3 466	-
Panacea Mobile Proprietary Limited	21	-
Cellfind Proprietary Limited	5 327	-
Blue Label Distribution Proprietary Limited	27	-
DNI Retail Proprietary Limited	68 035	123 899
Airvantage Proprietary Limited	2 774	-
Communications Equipment Company Proprietary Limited	142 798	221 232
	1 474 582	**1 914 002**
Loan balances due to related parties		
Communications Equipment Company Proprietary Limited	459 140	-
The Prepaid Company Proprietary Limited	1 021 906	-
	1 481 046	**-**

Notes to the Condensed Group Interim Financial Statements

18 Operating segments

Basis for segmentation

The Group has the following seven reportable segments. These segments are differentiated by means of the nature of the product and services offered, they are, to a certain extent managed separately because of the different markets each segment addresses. The basis of segmentation were expanded in the 2017 year end due to change in operations.

The following summary describes the operations of each reportable segment.

Reportable segments	Operations
Prepaid	The prepaid segment offers products and services for which credit is purchased in advance of service use. The purchased credit is used to pay for mobile phone services at the point the service is accessed or consumed. Access to the requested service is only made available to the user if there are purchased credits available. Users are able to top up their credit at any time using a variety of payment mechanisms.
Contract	The contract segment provides products and services by an arrangement with the user. The user is billed according to their use of mobile services at the end of each month. Typically, the customer's contract specifies a limit or "allowance" of minutes, text messages etc., and the customer will be billed at a flat rate for any usage equal to or less than that allowance. Any usage above that limit incurs extra charges. Other contracts where users are provided products and services by an arrangement, but are limited to a certain pre-determined limit, any usage above that limit will be charged on a prepaid basis.
MVNO	This segment offers products and services to mobile virtual network operators and other distributors.
Other	Other revenues consist of wholesale distribution of services, content revenue and other miscellaneous charges.
Incoming revenues	Interconnect revenues.
FTTH	Fibre-to-the-home products.
Equipment	The equipment segment includes hardware products sold to various channels and end users.

The Group’s executive committee reviews the internal management reports on a monthly basis.

Information about reportable segments

Information related to each reportable segment is set out below. Segment revenue, as included in the internal management reports reviewed by the Group’s executive committee, is used to measure performance.

	6 months ended June 2018 R'000	6 months ended June 2017 R'000
Revenue from contracts with customers		
Prepaid	3 657 358	3 513 865
Contract	1 626 979	1 940 463
MVNO	486 269	312 547
Other	505 132	150 084
Incoming revenues	523 456	391 548
FTTH	62 041	12 580
Equipment	914 090	1 385 876
	7 775 325	**7 706 963**

Notes to the Condensed Group Interim Financial Statements

19 Events after the reporting period

Post 30 June 2018, the Group secured additional facilities to the value of R1,4 billion which was utilised to settle in full the short term capex facility due to The Prepaid Company Proprietary Limited at 31 July 2018.

20 Application of new and revised International Financial Reporting Standards (IFRS)

20.1 Changes in significant accounting policies

The accounting policies adopted in the preparation of the Condensed Group Interim Financial Statements are consistent with those followed in the preparation of the Group Annual Financial Statements for the year ended 31 December 2017, except for the adoption of IFRS 15 -*Revenue from contracts with customers* effective as of 1 January 2018. The Group has elected to early adopt IFRS 16 - *Leases* that has been issued but is not yet effective (effective for periods beginning on or after 1 January 2019).

The changes in accounting policies are also expected to be reflected in the Group's Annual Financial Statements as at and for the year ending 31 December 2018.

The following tables show the adjustments recognised due to changes in accounting policy for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided.

Impact on the Condensed Group Interim Statement of Financial Position

30 June 2018	Amount as reported 30 June 2018	Impact of adopting IFRS 15	Impact of adopting IFRS 16	Amounts without adoption of new IFRS
	R'000	R'000	R'000	R'000
Assets				
Non-Current assets				
Property, plant and equipment	12 570 249	-	(3 796 087)	8 774 162
Intangible assets	1 301 415	(249 227)	-	1 052 188
	13 871 664	**(249 227)**	**(3 796 087)**	**9 826 350**
Equity				
Accumulated loss	(22 149 899)	(249 227)	(164 721)	(22 563 847)
	(22 149 899)	**(249 227)**	**(164 721)**	**(22 563 847)**
Liabilities				
Non-Current liabilities				
Obligations under leases	4 572 864	-	(2 862 883)	1 709 981
	4 572 864	**-**	**(2 862 883)**	**1 709 981**
Current liabilities				
Obligations under leases	892 268	-	(768 483)	123 785
Unearned revenue	573 636	-	-	573 636
	1 465 904	**-**	**(768 483)**	**697 421**
Total equity and liabilities	**(16 111 131)**	**(249 227)**	**(3 796 087)**	**(20 156 445)**

Notes to the Condensed Group Interim Financial Statements

20 Application of new and revised International Financial Reporting Standards (IFRS) (continued)

20.1 Changes in significant accounting policies (continued)

Impact on the Condensed Group Interim Statement of Profit or Loss and Comprehensive Income

For the 6 months ended 30 June 2018	Amount as reported 30 June 2018	Impact of adopting IFRS 15	Impact of adopting IFRS 16	Amounts without adoption of new IFRS
	R'000	R'000	R'000	R'000
Revenue	7 775 325	439 868	-	8 215 193
Other income	96 504	-	-	96 504
Direct expenses	(3 464 028)	(316 797)		(3 780 825)
Operating expenses	(3 473 504)	37 434	(184 914)	(3 620 984)
Profit before equity-accounted earnings, net finance costs and tax	**934 297**	**160 505**	**(184 914)**	**909 888**
Finance income	769 719	-	-	769 719
Finance costs	(2 349 780)	(344 415)	322 301	(2 371 894)
Share of profit / (loss) from equity-accounted investee	619	-	-	619
Loss before tax	**(645 145)**	**(183 910)**	**137 387**	**(691 668)**
Income tax	-	-	-	-
Total comprehensive income for the year	**(645 145)**	**(183 910)**	**137 387**	**(691 668)**

The following table summarises the impact, gross of tax, of transition to IFRS 16 on retained earnings at 1 January 2018.

	Impact of adopting IFRS 16 at 1 January 2018
	R'000
Retained earnings	
Derecognition of operating lease smoothing reserve	314 991
Impact at 1 January 2018	**314 991**

The following table summarises the impact, gross of tax, of transition to IFRS 15 on retained earnings at 1 January 2018.

	Impact of adopting IFRS 15 at 1 January 2018
	R'000
Retained earnings	
Derecognition of subscriber related acquisition costs	(78 995)
Impact at 1 January 2018	**(78 995)**

Notes to the Condensed Group Interim Financial Statements

20 Application of new and revised International Financial Reporting Standards (IFRS) (continued)

20.2 IFRS 16 Leases

The Group has elected to early adopt IFRS 16, effective 1 January 2018.

IFRS 16 - *Leases* replace IAS 17 - *Leases*. IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. A lessee measures right-of-use assets similarly to other non-financial assets (such as property, plant and equipment) and lease liabilities similarly to other financial liabilities. As a consequence, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability.

The adoption of IFRS 16 has resulted in an increase in lease liabilities and right-of-use assets in the statement of financial position with a corresponding reduction in operating lease expenses and an increase in depreciation and finance costs in the statement of profit or loss and comprehensive income.

As at 30 June 2018, the Group is in the process of finalising the lease data base. The Group expects an increase in the lease asset, lease liability, depreciation and finance charge.

Lessor accounting under IFRS 16 is similar to existing IAS 17 accounting and does not have a material impact for the Group.

Transition of IFRS 16

On transition to IFRS 16 - *Leases*, the Group chose to apply a practical expedient and not reassess whether a contract is, or contains a lease.

The Group applied the practical expedient to grandfather the definition of a lease on transition. This means that it applied IFRS 16 to all contracts entered into before 1 January 2018 and identified as leases under IAS 17 and IFRIC 4.

As a lessee, The Group plans to apply IFRS 16 initially on 1 January 2018, using a modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2018, with no restatement of comparative information.

The modified retrospective approach followed by the Group is summaried as follows:

Operating leases

Lease liability - equal to the remaining lease payments using an incremental borrowing rate at the date of initial application to discount.

Right-of-use asset - equal to the lease liability adjusted for prepaid or accrued lease payments immediately before the date of initial application.

Finance leases

Lease liability - the Group used the previous carrying value of finance lease liability.

Right-of-use asset - the Group used the previous carrying value of finance lease asset.

Notes to the Condensed Group Interim Financial Statements

20 Application of new and revised International Financial Reporting Standards (IFRS) (continued)

20.3 IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 *Revenue*, IAS 11 *Construction Contracts and related interpretations*.

The new standard requires entities to recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Group has adopted IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognised at the date of initial application (January 2018). Accordingly, the information presented for 2017 has not been restated i.e. it is presented, as previously reported, under IAS 18 *Revenue*.

The following table summarises the impact, gross of tax, of transition to IFRS 15 on retained earnings at 1 January 2018.

Transition of IFRS 15

The details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Group's various goods and services are set out below:

Under IFRS 15, 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 judgement.

Type of product/service	Nature, timing of satisfaction of performance obligations, significant payment terms	Nature of change in accounting policy
Interconnect revenue	Interconnection revenue for call termination is recognised in the period the traffic occurs. Revenue related to on-network, network-to-network, roaming and international call connection services is recognised when the call is placed or connection provided. Revenue related to products and value-added services is recognised upon delivery and acceptance of the product or service.	No change in policy under IFRS 15
Contract revenue, including contract broadband and Fibre revenue	Activation fees are recognised when the customer activates the service. Airtime and data revenue is recognised on a percentage completion basis i.e. revenue is recognised over the period services are expected to be delivered. Amounts not yet recognised are reflected as contract liabilities in the statement of financial position.	For bundled packages, the Group accounts for individual products and services separately if they are distinct i.e. if a product and service is separately identifiable from other items in the bundled package and if the customer can benefit from it. The consideration is allocated between separate products and services in a bundle based on the stand-alone selling prices. The stand-alone selling prices are determined based on the list prices at which the Group sells the mobile devices and telecommunication services.
Wholesale revenue	Wholesale revenue is recognised in the period when the services are utilised.	No change in policy under IFRS 15
Prepaid revenue	Amounts collected for prepaid airtime are deferred as contract liabilities in the statement of financial position and are recognised as revenue at the earlier of use or expiry.	No change in policy under IFRS 15
Content revenue	Content purchased is recognised as revenue when the content is transferred to the customer profile. Subscription revenue arises from the monthly billing of subscribers for pay-television services provided. Revenue is recognised in the month the service is provided. Subscriptions received in advance is recorded as deferred income and recognised in the month the service is provided.	No change in policy under IFRS 15

Notes to the Condensed Group Interim Financial Statements

20 Application of new and revised International Financial Reporting Standards (IFRS) (continued)

20.3 IFRS 15 Revenue from Contracts with Customers (continued)

Transition of IFRS 15 (continued)

Third party content providers - (Wireless Application Service Providers)	Revenue recognised at the gross amount collected from the subscriber; Costs are recognised at the gross amount due to the supplier	Cell C Group will be classified as an agent in the transaction and revenue will be recognised at the net amount due to Cell C.
Mobile equipment reveue	Customers obtain control of mobile equipment when the goods are dispatched. Invoices are generated and revenue is recognised at that point in time. Invoices are usually payable within 30 days net of discounts, or returns that are offered for mobile equipment products.	The Group will act as a principle in the transaction. Mobile equipment sold for cash is recognised when the handset is delivered to the customer. Revenue is measured net of returns and value added tax. Mobile equipment sold in a bundled transaction, revenue will be allocated to equipment and mobile revenue based on relative selling prices in a bundle. Equipment revenue will be recognised at the amount received from the subscriber.
On-going commissions, distribution costs and other direct expenditures.	Recognised as an expense in the period incurred; Target based expenses are accrued on a monthly basis.	Contract expenses will be capitalised as an intangible asset and amortised over the period of the contract. Cell C will elect the practical expedient for prepaid expenses and not capitalise these costs as an intangible asset. The estimated amortisation period for this segment will be less than 12 months.

Costs to obtain and fulfill contracts with customers

Management expects that incremental fees paid to intermediaries as a result of obtaining a contract are recoverable. The Group has therefore capitalised them as contract costs as at 30 June 2018.

Capitalised costs will be amortised over the period of the contract and will be assessed annually for impairment.

Applying the practical expedient in IFRS 15, incremental cost to obtain a contract is not capitalised as an intangible asset if the period of amortisation would not exceed one year.

Consideration allocation to equipment and services

Under IFRS 15, total consideration received from contracts with customers is to be allocated to all equipment and services, based on stand-alone selling prices. Furthermore, a contract liability will be recognised for subscriptions paid in advance.

As at 30 June 2018, the Group has not completed the allocation exercise and as such revenue segments have been reported under IAS 18. The Group expects a change in the allocation of revenue between segments and equipment revenue, as well as the creation of a contract liability which will reduce contract revenue. The Group Annual Financial Statements for the year ending 31 December 2018 will contain the necessary disclosures as required under IFRS 15.

Notes to the Condensed Group Interim Financial Statements

20 Application of new and revised International Financial Reporting Standards (IFRS) (continued)

20.4 Transition of IFRS 9 Financial instruments

IFRS 9 - *Financial Instruments* is effective for annual periods beginning after 1 January 2018. The Cell C Group will for the first time report under IFRS 9 for the year ending 31 December 2018.

As at the interim date of 30 June 2018, the Group has not finalised all the adoption requirements of the new standard due to the complex requirements for the calculation of the expected credit loss model. This is expected to be finalised before the reporting date of 31 December 2018. It is expected that the requirements of IFRS 9 will only have a significant impact on the calculation and timing of expected credit losses.

The Group has elected to defer hedge accounting under IFRS 9 - *Financial Instruments* and will continue to use the hedge principles under IAS 39 *Financial Instruments*: *Recognition and Measurement*, until the standard resulting from the IASB's dynamic risk management project is completed.

Classification and measurement of financial assets and financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets held to maturity, loans and receivables and available for sale.

The adoption of IFRS 9 will not have a significant effect on the Group's accounting policies related to financial liabilities and derivative financial instruments.

Under IFRS 9, on initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

Under IFRS 9, loss allowances are measured on either of the following basis:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- life time ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Group will measure loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured as 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

The Group has elected to measure loss allowances for trade receivables and contract assets at an amount equal to lifetime ECLs.

Notes to the Condensed Group Interim Financial Statements

20 Application of new and revised International Financial Reporting Standards (IFRS) (continued)

20.4 Transition of IFRS 9 Financial instruments (continued)

Impact of the new impairment model

For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Group is still in the process of determining the impairment requirements at 1 January 2018 and will have this reported in the Group Annual Financial Statements for the year ending 31 December 2018.

Hedge accounting

The Group has elected to defer hedge accounting under IFRS 9 and will continue to use the hedge principles under IAS 39 - *Financial Instruments*: *Recognition and Measurement*, until the standard resulting from the IASB's dynamic risk management project is completed.