

2. NOTES TO THE FINANCIAL RESULTS (continued)

2.3 Property, plant and equipment (continued)

Leases

During the current period the group adopted IFRS 16, leases, for the first time. The group has reviewed the terms of all agreements in place at 29 February 2020 to determine whether leases should be classified as an IFRS 16 lease asset or leases of low value assets included in operating expenses. The group accounted for a right-of-use asset acquired through a business combination with a book value amounting to N\$2 538 241. Right-of-use assets are classified separately and pertain to lease agreements on buildings only.

Lease liabilities acquired through a business combination dated 1 January 2020, amounted to N\$3 718 649.

Maturity analysis of lease liabilities are as follows:

	29 February 2020 Reviewed N\$	28 February 2019 Audited N\$
Within one year	1 497 310	-
Two to Five years	2 154 997	-

2.4 Intangible assets

	Additions through business combination	Additions / revaluations	Amortisation	Closing balance
Telecommunications License / Network Spectrum	241 408 500	-	-	241 408 500
Goodwill	10 406 074	-	-	10 406 074
Free right of use (Fiber capacity - Botswana)	25 200 000	-	(210 000)	24 990 000
Paratus Brand	16 616 400	-	(276 940)	16 339 460
Customer relationship - Botswana Fiber Networks	2 909 900	-	(24 249)	2 885 651
Customer base	1 029 250	-	(64 328)	964 922
Computer software	2 576 226	911	(286 103)	2 291 034
	300 146 350	911	(861 620)	299 285 641

On 1 January 2020 the group acquired intangible assets with a book value of N\$300 146 350 through a business combination. Intangible assets are amortised over their useful lives, except for the Telecommunications License / Network Spectrum and goodwill which have indefinite useful lives.

2.5 Business combination

On 1 January 2020 Paratus Namibia Holdings acquired the remaining 46 168 ordinary shares in Paratus Telecommunications (Pty) Ltd ("Paratus Namibia") in accordance with a share swap transaction, bringing the total shareholding of Paratus Namibia Holdings in Paratus Namibia to 100% (29 February 2019: 51.38%). The swap consideration was settled through the issue of 20 012 431 new ordinary Paratus Namibia Holdings shares allotted to Paratus Group Holdings Ltd ("Paratus Group") at a pre-determined and agreed upon price of N\$10.50 each for a total consideration of N\$210 130 525.50.

The fair value of the investment previously held amounted to N\$228 901 814. This change in ownership resulted in a deemed profit on sale of disposal of associate amounting to N\$923 021, included in other operating gains. On date of acquisition the difference between the net asset value and the fair value of the investment resulted in a goodwill amount of N\$294 million. This amount was allocated to the following intangible assets (refer note 2.4):

	N\$
- Telecommunications License / Network Spectrum	241 408 500
- Paratus Brand	16 616 400
- Free right of use (Fiber capacity - Botswana)	25 200 000
- Customer relationship - Botswana Fiber Network	2 909 900
- Goodwill	7 960 094
	294 094 894

At 29 February 2020 the investment in Paratus Namibia is classified as an investment in subsidiary held at fair value in the separate statement of financial position of Paratus Namibia Holdings.

During the current period the financial year-end of the group was changed from the last day of February to the last day of June each year. The Paratus Namibia year-end coincides with the Paratus Namibia Holdings year-end.

2.6 Investments at fair value

Investments at fair value amounting to N\$118 million (2019:N\$105 million) consists of an investment in Money Market Funds, which earned dividends of N\$6,6 million(2019:N\$4,6million) refer note 2.7 Segment information. The dividends received are included under revenue.

Investments at fair value are short term in nature and classified as level 2 financial instruments. Level 2 financial instruments are valued at prices relative to prices in the market.

2.7 Segment information

The group considers its ICT operations in Namibia and Investment activities as its two only operating segments. This is consistent with the internal reporting provided to the chief operating decision-makers, identified as the Executive Committee of the Group. The chief operating decision-makers are the persons that allocates resources to and assesses the performance of the operating segments of the group.

	29 February 2020 Reviewed N\$	28 February 2019 Audited N\$
Operating revenue		
ICT operations	56 141 483	-
Investment activities	6 623 832	4 581 201
	62 765 315	4 581 201
Profit after taxation for the period		
ICT operations	7 313 479	-
Investment activities	9 466 968	6 981 793
	16 780 447	6 981 793

3. DIRECTORS' COMMENTARY

3.1 Transactional overview

On 3 July 2019 Paratus Namibia concluded a rights issue. In terms of the rights issue the aggregate amount raised by Paratus Namibia amounted to N\$ 50 million, which was contributed as share capital in Paratus Namibia, by Paratus Namibia Holdings and Paratus Group pro rata to their respective shareholdings in Paratus Namibia on this date. The subscription price was N\$1 053.03, consisting of a par value of N\$5 and a premium of N\$1 048.03 per ordinary share for both Paratus Namibia Holdings and Paratus Group. Paratus Namibia Holdings subscribed for 24 398 ordinary shares in Paratus Namibia, for a consideration of N\$25.7 million, which resulted in no change in the effective percentage shareholding in the company.

3. DIRECTORS' COMMENTARY (continued)

3.1 Transactional overview (continued)

The capital raised in Paratus Namibia is utilised towards the capital expenditure budget of N\$114 million for the current financial year, ending 30 June 2020, with N\$56.5 million earmarked for the fiber to the x (FTTx) roll-out and N\$24.4 million for LTE network assets.

On 25 September 2019 the shareholders approved the implementation of the proposed share swap transaction, as a Category 1 transaction together with an issue of new shares as consideration, in terms of the NSX Listing requirements. Effective 1 January 2020, in terms of the swap, Paratus Namibia Holdings acquired 46 168 ordinary shares in Paratus Namibia, resulting in an increased effective shareholding of Paratus Namibia Holdings from 51.38% to 100% of the total issued ordinary shares in Paratus Namibia. From 1 January 2020 the financial results of Paratus Namibia are therefore consolidated into the Paratus Namibia Holdings financial results.

The swap consideration was settled through the issue of 20 012 431 new ordinary Paratus Namibia Holdings Shares allotted to Paratus Group at a pre-determined and agreed upon price of N\$10.50 each for a total consideration of N\$210 130 525.50.

3.2 The market and prospects

Although global market conditions have affected market confidence and consumer spending patterns, the group remains well placed to grow revenues.

For the 12 months ended 29 February 2020 Paratus Namibia delivered commendable revenue growth despite a depressed Namibian economy. The company realised turnover of N\$323.7million (2019: N\$283.7million), which represents a growth of 14%. The net profit before tax for the same period amounts to N\$29.9 million (2019: N\$13.8 million) and earnings before interest, tax, depreciation and amortisation (EBITDA) amounts to N\$78.8million (2019:N\$52.8million). This represents a growth of 117% and 49% respectively.

EBITDA number mirrors the company's ability to generate cash flows from operations. The disparity between profit after taxation and EBITDA stems from the large depreciation charges recorded on infrastructure deployed.

The growth in profitability is mainly attributable to the improved operating margins coming from the extensive infrastructure roll-out and once off revenue derived from Local Area Network (LAN) installations in new commercial buildings. During March 2020, the board of Paratus Namibia Holdings approved an additional fiber roll-out project of N\$60 million to expand the fiber network in Windhoek, Swakopmund and Walvis Bay. The directors are of the opinion that the continued investment in infrastructure assets bodes well for future revenue growth.

After the 28 February 2020 interim financial reporting period, there has been a wide-spread international outbreak of the Covid-19 virus originating in China, which has significantly affected lives, entities and economic activity around the world. The Namibian Government implemented a national "lockdown" starting at midnight on 27 March 2020. As a result of the spread of the virus and the reactions thereto, there have been material adverse financial effects around the world.

In terms of IFRS, these events are material "non-adjusting events" occurring after the reporting period. It is not possible to provide accurate estimates of the financial effects of the pandemic on the group, which is inherently uncertain, but the following are potential future financial effects:

- Reduction in value of investments;
- Impact on service levels and revenue;
- Foreign exchange losses due to exposure to foreign suppliers; and
- Bad debts due to customer payments defaults.

The group has a Business Continuity Plan (BCP) in place, which sets out its response to the management of epidemics. The group's BCP was invoked whereby an increasing proportion of our workforce were enabled to work from home, whilst arrangements for those who remained in the office were adjusted to ensure appropriate "social distancing" to protect our employees.

All essential functions, such as the network operating centre, new service provisioning and billing continued to operate uninterrupted.

The directors have considered the impact of the pandemic on the business of the group and believes the group is well positioned with sufficient liquid reserves to continue as a going concern.

3.3 Changes to the Board

Since the previous announcement there have been no changes to the board of directors.

3.4 Contingent liabilities

As at the date of approval of the interim financial results, the Board was not aware of any contingent liabilities.

3.5 Dividend declared

The directors declared a maiden dividend of 10c per ordinary share (28 February 2019: N\$ Nil). A dividend policy was adopted that provides for a dividend pay-out of approximately 50% of profit after tax.

The salient dates of the dividend declared are as follows:

- Declaration date:	19 May 2020
- Last date to trade "cum" the distribution:	12 June 2020
- Last date to register:	19 June 2020
- Payment date:	03 July 2020

3.6 Appreciation

The Board would like to thank the management team, service providers and especially our customers for their continued support and dedication. Finally, we would like to thank our shareholders for their support and association with Paratus Namibia Holdings.

By order of the Board

H B Gerdes - Chairman of the Board
19 May 2020

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Cronje Secretarial Services (Pty) Ltd

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