

Notes to the Group annual financial statements continued

For the year ended 31 May 2019

4. NON-FINANCIAL INSTRUMENTS continued

4.3 Property, plant and equipment

Property, plant and equipment is initially recorded at historical cost, being the purchase cost plus any cost to prepare the assets for their intended use. Historical cost includes expenditure that is directly attributable to the acquisition of the item. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial year in which they are incurred.

Property, plant and equipment is subsequently carried at historical cost less accumulated depreciation and any accumulated impairment losses.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at year-end. Where the assets' residual value is higher than the carrying value, no depreciation is provided.

Gains and losses on disposal of property, plant and equipment are determined as the difference between the carrying amount and the fair value of the sale proceeds, and are included in operating profit.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Depreciation is calculated on the straight-line basis to write off the cost of the assets to their residual values over their estimated useful lives as follows:

Computer equipment	25% – 33.3%
Furniture, fittings and office equipment	16.67% – 25%
Motor vehicles	20% – 25%
Terminals and vending machines	16.67%
Buildings	8.33%

Major leasehold improvements are amortised over the shorter of their respective lease periods and estimated useful lives.

4. NON-FINANCIAL INSTRUMENTS continued

4.3 Property, plant and equipment continued

	Computer equipment R'000	Furniture, fittings and office equipment R'000	Motor vehicles R'000	Leasehold improve- ments R'000	Terminals and vending machines R'000	Buildings R'000	Total R'000
Year ended 31 May 2019							
Opening carrying amount	40 286	10 908	21 599	5 200	55 028	4 099	137 120
Additions	32 449	10 099	10 063	17 841	63 576	—	134 028
Acquisition of subsidiaries	7 443	18 433	455	14 164	4 488	—	44 983
Disposals	(547)	(7)	(2 842)	(199)	(874)	—	(4 469)
Depreciation charge	(21 302)	(11 043)	(6 754)	(5 011)	(28 854)	—	(72 964)
Impairments	—	—	—	—	(2 002)	—	(2 002)
Translation difference	—	15	87	859	—	—	961
Closing carrying amount	58 329	28 405	22 608	32 854	91 362	4 099	237 657
At 31 May 2019							
Cost	140 964	50 113	33 740	84 994	206 517	4 099	520 427
Accumulated depreciation	(82 465)	(20 584)	(11 132)	(51 702)	(111 897)	—	(277 780)
Accumulated impairments	(170)	(1 124)	—	(438)	(3 258)	—	(4 990)
Carrying amount	58 329	28 405	22 608	32 854	91 362	4 099	237 657
Year ended 31 May 2018							
Opening carrying amount	34 883	7 102	11 139	2 494	51 882	4 099	111 599
Additions	18 335	2 981	16 659	3 446	30 219	—	71 640
Acquisition of subsidiaries	2 208	3 590	2 148	678	—	—	8 624
Disposals	(78)	(280)	(3 442)	(2)	(900)	—	(4 702)
Depreciation charge	(15 043)	(2 491)	(4 834)	(1 403)	(22 373)	—	(46 144)
Impairments	—	—	—	—	(3 800)	—	(3 800)
Translation difference	(19)	6	(71)	(13)	—	—	(97)
Closing carrying amount	40 286	10 908	21 599	5 200	55 028	4 099	137 120
At 31 May 2018							
Cost	113 260	26 007	31 155	52 367	148 051	4 099	374 939
Accumulated depreciation	(72 804)	(13 975)	(9 556)	(46 729)	(91 767)	—	(234 831)
Accumulated impairments	(170)	(1 124)	—	(438)	(1 256)	—	(2 988)
Carrying amount	40 286	10 908	21 599	5 200	55 028	4 099	137 120

* Included in Depreciation and amortisation on the Group income statement.

There are no property, plant and equipment assets that are encumbered.

The residual values of buildings are estimated to be higher than the carrying value and therefore there is no depreciation charge.

Notes to the Group annual financial statements continued

For the year ended 31 May 2019

4. NON-FINANCIAL INSTRUMENTS continued

4.4 Inventories

Inventories comprise prepaid airtime (including physical prepaid airtime), handsets and other related products.

Inventories are stated at the lower of cost (net of rebates and discounts) or estimated net realisable value. Cost comprises direct materials and, where applicable, overheads that have been incurred in bringing the inventories to their present location and condition, excluding borrowing costs. The cost of inventory is determined by means of the weighted average cost basis. Net realisable value is the estimate of the selling price in the ordinary course of business, less selling expenses. Provisions are made for obsolete, unusable and unsaleable inventory and for latent damage first revealed when inventory items are taken into use or offered for sale. Where unused PINS have been recycled and included in inventory for resale, the Group recognises the stock at no value.

	2019 R'000	2018 R'000
Finished goods		
Prepaid airtime	1 069 511	428 775
Handsets	394 795	142 799
Other*	50 343	26 372
	1 514 649	597 946

* Other inventory mainly consists of starter packs and consumables.

Inventories with a cost of R23.2 billion (2018: R24.4 billion) were sold during the year and have been charged to the income statement.

Included in the above balances are provisions for obsolete, unusable and unsaleable inventory and for latent damage to the value of R17.5 million (2018: R10.9 million).

A general notarial bond is held by Investec Bank Limited over airtime up to R1.5 billion (2018: R1.5 billion).

There is no unrealised profit included in Cell C prepaid airtime inventory at year-end due to Cell C only recognising revenue from the sale of period airtime on utilisation by the customer.

4.5 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are not recognised for future operating expenses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

The increase in the provision due to the passage of time is recognised as an interest expense.

	Unredeemed electricity provision R'000	Other provisions R'000	Total R'000
Opening balance	36 031	3 597	39 628
Additions	478 007	45 965	523 972
Acquisition of subsidiaries	—	—	—
Used during the year	(495 271)	(43 382)	(538 653)
Reversed	—	—	—
Closing carrying amount	18 767	6 180	24 947

Unredeemed electricity provision

The unredeemed electricity provision raised represents the value of electricity vouchers sold and unredeemed as at year-end, payable by the Group to the municipalities on redemption by the end customer.

Redemption is dependent on activation by customers. This is expected to occur within the first quarter of the following financial year.

The Group is not involved in any significant litigation at year-end.