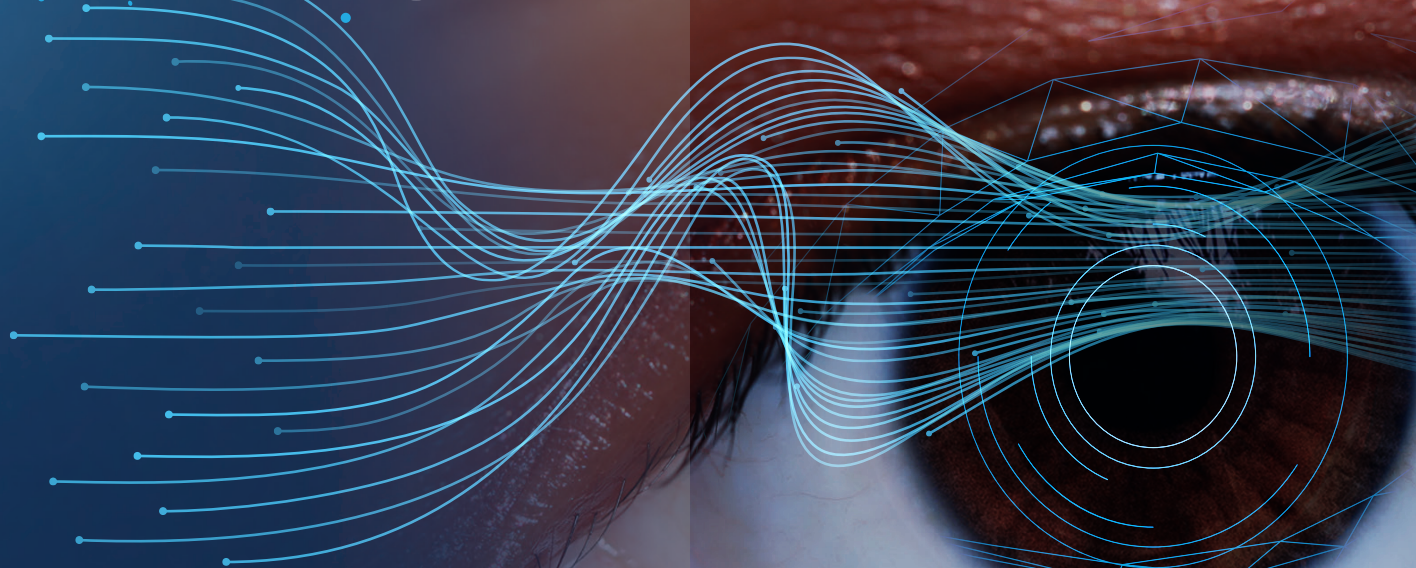


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GROUP ANNUAL FINANCIAL STATEMENTS
2022



BLUE LABEL
TELECOMS

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FINANCIAL PERFORMANCE

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Prominent notice

These annual financial statements have been audited by our external auditor PricewaterhouseCoopers Inc. in compliance with the applicable requirements of the Companies Act, No 71 of 2008. Dean Suntup, Financial Director, supervised the preparation of the annual financial statements.



DA Suntup CA(SA)
Financial Director

Statement of Directors' responsibility

for the year ended 31 May 2022

The Directors are responsible for the maintenance of adequate accounting records and the preparation, integrity and fair presentation of the Group financial statements of Blue Label Telecoms Limited, its subsidiaries, joint ventures and associates (the Group).

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), the Financial Reporting Guides as issued by the South African Institute of Chartered Accountants (SAICA) Accounting Practices Committee, Financial Pronouncements as issued by the Financial Reporting Standards Council, the JSE Listings Requirements and the requirements of the Companies Act of 2008.

The Directors consider that having applied IFRS in preparing the Group financial statements they have selected the most appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all IFRS statements that they consider to be applicable have been followed.

The Directors are satisfied that the information contained in the Group financial statements fairly presents the results of operations for the year and the financial position of the Group at year-end. The Directors prepared the other information included in the Group financial statements and are responsible for both its accuracy and its consistency.

In addition, the Directors are responsible for the Group's system of internal financial control. These are designed to provide reasonable, but not absolute, assurance as to the reliability of the financial statements, and to adequately safeguard, verify and maintain accountability of the assets, and to prevent and detect misstatement and loss. Nothing has come to the attention of the Directors to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

The Group financial statements have been prepared on the going concern basis, since the Directors have every reason to believe that the Group has adequate resources in place to continue in operation for the foreseeable future, based on forecasts and available cash resources. These Group financial statements support the viability of the Group.

The independent auditing firm PricewaterhouseCoopers Inc., which was given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders, the Board of Directors and committees of the Board, has audited the Group financial statements. The Directors believe that all representations made to the independent auditors during their audit are valid and appropriate.

Approval of the financial statements

The financial statements were produced and approved by the Board of Directors on 25 August 2022 and are signed on its behalf by:



LM Nestadt
Non-executive Chairman



DA Suntut
Financial Director



BM Levy
Joint Chief Executive Officer



MS Levy
Joint Chief Executive Officer

Joint Chief Executive Officers and Financial Director responsibility statement on internal financial controls

In line with paragraph 3.84(k) of the JSE Limited Listings Requirements, each of the Directors whose names are stated below, hereby confirm that:

- the annual financial statements set out on pages 18 to 112, fairly present in all material respects the financial position, financial performance and cash flows of the issuer in terms of International Financial Reporting Standards;
- to the best of our knowledge and belief, no facts have been omitted or untrue statements made that would make the annual financial statements false or misleading;
- internal financial controls have been put in place to ensure that material information relating to the issuer and its consolidated subsidiaries have been provided to effectively prepare the financial statements of the issuer;
- the internal financial controls are adequate and effective and can be relied upon in compiling the annual financial statements, having fulfilled our role and function as Executive Directors with primary responsibility for implementation and execution of controls;
- where we are not satisfied, we have disclosed to the Audit Committee and the auditors any deficiencies in design and operational effectiveness of the internal financial controls, and have taken steps to remedy the deficiencies; and
- we are not aware of any fraud involving Directors.



BM Levy
Joint Chief Executive Officer



MS Levy
Joint Chief Executive Officer



DA Suntut
Financial Director

Sandton

25 August 2022

Declaration by the Company Secretary

for the year ended 31 May 2022

In terms of section 88(2)(e) of the Companies Act, No 71 of 2008 (the Act), I confirm that for the year ended 31 May 2022, Blue Label Telecoms Limited has lodged with the Companies and Intellectual Property Commission all such returns and notices as are required of a public company in terms of the Act and that all such returns and notices are true, correct and up to date.



J van Eden

Group Company Secretary

Sandton

25 August 2022

Directors' report

The Directors have pleasure in presenting the Group annual financial statements of Blue Label Telecoms Limited (Blue Label Telecoms or the Company) and its subsidiary, associate and joint venture companies (the Group) for the year ended 31 May 2022.

Principal activities and strategy

Blue Label Telecoms' core business is the virtual distribution of secure electronic tokens of value and transactional services across its global footprint of touch points. The Group's stated strategy is to extend its global footprint of touch points, both organically and acquisitively, to meet the significant demand for the delivery of multiple prepaid products and services through a single distributor, across various delivery mechanisms and via numerous merchants or vendors.

Financial results

The Group recorded a net profit after tax attributable to equity holders for the year ended 31 May 2022 of R1 027 billion (2021: R831 million). Full details of the financial position and results of the Group and its segments are set out in the Group annual financial statements. The Group annual financial statements for the year ended 31 May 2022 were approved by the Board and signed on its behalf on 25 August 2022.

Share capital

Full details of the authorised, issued and unissued capital of the Company at 31 May 2022 are contained in note 6.1 of the Group annual financial statements.

Dividends

The Board of Directors have elected not to declare a dividend.

Subsequent events and going concern

Cell C

Certain of the Secured Lenders of Cell C, are holders of formerly publicly listed notes issued by Cell C described as USD184 002 000 8.625% First Priority Senior Secured Notes. Shareholders were notified of the convening of a meeting of the holders of the Notes ("Noteholders") for Noteholders to approve an extraordinary resolution which, amongst other things, will give effect to the compromising of the Noteholders' claims ("Compromise Offer").

In terms of the Compromise Offer, Cell C shall, inter alia, restructure its debt owing to certain secured lenders totalling c.R7.3 billion, with such amount being fixed as at November 2019, by compromising the secured lenders' claims by an offer of 20c to the rand.

The Noteholder meeting was held on 5 July 2022 and Noteholders with the requisite majority voted resolutions in favour of, amongst other things, the compromise offer as set out in Cell C's consent solicitation memorandum.

The binding long form agreements are expected to be completed in their entirety shortly. It is anticipated that the recapitalisation process, the completion of which has endured for longer than initially anticipated, is expected to close by mid-September 2022.

Banking facilities

In August 2022, The Prepaid Company renegotiated a further extension of its Investec facility to 30 September 2023. The Investec facility available to The Prepaid Company at year-end is required to reduce by R120 million to R1.005 billion as at 30 September 2022. At 31 May 2022 the Investec facility is disclosed as current borrowings, as the extension to 30 September 2023, was only granted in August 2022.

Going concern

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within its current funding levels into the foreseeable future.

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources and facilities to continue in operational existence for the foreseeable future and is not at risk of breaching its covenants. The Group therefore continues to adopt the going concern basis in preparing the financial statements.

Directorate

The following are the details of the Company's Directors:

Name	Office	Appointment date	Date and nature of change
Larry M Nestadt (Chairman)	Independent Non-Executive Director	5 October 2007	—
Brett M Levy	Joint Chief Executive Officer	1 February 2007	—
Mark S Levy	Joint Chief Executive Officer	1 February 2007	—
Kevin M Ellerine	Non-Executive Director	8 December 2009	—
Gary D Harlow	Independent Non-Executive Director	5 October 2007	—
Nomavuso P Mnxasana	Independent Non-Executive Director	18 September 2020	—
Joe S Mthimunya	Independent Non-Executive Director	5 October 2007	—
Dean A Suntup	Financial Director	14 November 2013	—
Jeremiah S Vilakazi	Independent Non-Executive Director	19 October 2011	—
Lazarus P Zim	Independent Non-Executive Director	23 October 2020	—

Directors' interests

The individual interests declared by Directors in the Company's share capital as at 31 May 2022, held directly or indirectly, were as follows:

Director/officer	Nature of interest			
	Direct beneficial		Indirect beneficial	
	2022	2021	2022	2021
LM Nestadt (Chairman)	—	—	10 000 000	10 000 000
BM Levy	67 424 914	67 275 315	17 772 777	17 772 777
MS Levy	60 017 506	59 867 907	17 772 777	17 772 777
KM Ellerine*	—	—	120 000 000	120 000 000
GD Harlow	—	—	1 285 114	1 685 114
JS Mthimunya	130 000	130 000	242 573	242 573
DA Suntup	3 958 476	3 879 243	177 778	177 778
SJ Vilakazi	—	—	8 200	—

* KM Ellerine is a beneficiary of these shares together with multiple other beneficiaries.

The aggregate interest of the current Directors in the capital of the Company was as follows:

Director/officer	Number of shares	
	2022	2021
Beneficial	298 790 115	298 803 484

The beneficial interest held by Directors and officers of the Company constitutes 32.70% (2021 32.70%) of the issued share capital of the Company.

Details of Directors' emoluments and equity compensation benefits are set out in note 5.3 of the Group annual financial statements and details of the forfeitable share plan are set out in note 5.1.

Directors' report continued

Resolutions

On 25 November 2021, the Company passed and filed with the Companies and Intellectual Property Commission the following special resolutions:

- approving the remuneration of Non-Executive Directors; and
- granting a general authority to repurchase the Company's shares.

Except for the aforementioned, no other special resolutions, the nature of which might be significant to shareholders in their appreciation of the state of affairs of the Group, were passed by the Company or its subsidiaries during the period covered at the date of signing these Group annual financial statements.

Company Secretary

The Board is satisfied that Ms J van Eden has the requisite knowledge and experience to carry out the duties of a company secretary of a public company in accordance with section 88 of the Act and is not disqualified to act as such. She is not a Director of the Board and maintains an arm's-length relationship with the Board.

The business and postal address of the Company Secretary appear on the Company's website at www.bluelabeltelecoms.co.za.

Auditors

PricewaterhouseCoopers Inc. will continue in office in accordance with section 90(6) of the Companies Act.



Larry Nestadt

Chairman

Audit, Risk and Compliance Committee's report

The Audit, Risk and Compliance Committee (ARCC) is pleased to present its report for the financial year ended 31 May 2022.

The Committee is an independent statutory committee appointed by the shareholders of the Company. In addition to its statutory duties, the Board has delegated further duties to the Committee. This report covers both these sets of duties and responsibilities.

Mandate and terms of reference

The Committee has adopted comprehensive and formal terms of reference which have been approved by the Board and which are reviewed on an annual basis. The responsibilities of the ARCC include:

- examining and reviewing the Group's financial statements and reporting of interim and final results;
- review and consider, for recommendation to the Board, the consolidated budget for the ensuing financial year;
- overseeing integrated reporting;
- overseeing the Internal Risk and Compliance Committee function;
- overseeing the function of the Compliance Officer;
- ensure that Blue Label implements an effective policy and plan for risk management that has been disseminated throughout the organisation and integrated within day-to-day activities in order to enhance the Company's ability to achieve its strategic objectives;
- ensure that the disclosure regarding risk is comprehensive, timely and relevant;
- ensure that a combined/integrated assurance model is applied to provide a co-ordinated approach to all assurance activities and appropriately addresses all the significant risks facing Blue Label;
- reviewing and satisfying itself of the expertise, resources and experience of the Blue Label finance function;
- overseeing the Group internal audit function;
- establish, implement and maintain a compliance function with adequate policies and procedures to ensure compliance with rules, regulations, statutes and procedures applicable to Blue Label;
- report annually to the Board and shareholders describing the Committee's composition, responsibilities and how they were discharged, and any other information required by rule, including the approval of non-audit services;
- resolve any disagreements between management and the auditor regarding financial reporting;
- retain independent counsel, accountants, or others to advise the Committee or assist in the conduct of an investigation;
- seek any information it requires from employees – all of whom are directed to co-operate with the Committee's requests – or external parties; and
- meet with the organisation's officers, external auditors, or outside counsel as necessary.

Membership and meetings held

In accordance with the requirements of the Companies Act, No 71 of 2008 (the Act), Mr JS Mthimunya, Mr GD Harlow, Ms NP Mnxasana and Mr SJ Vilakazi were appointed to the Committee by shareholders at the AGM held on 25 November 2021 in the following positions:

- JS Mthimunya (Independent Non-Executive Chairman);
- GD Harlow (Independent Non-Executive Director);
- NP Mnxasana (Independent Non-Executive Director); and
- SJ Vilakazi (Independent Non-Executive Director).

The members of the Committee collectively have experience in audit, accounting, commerce, economics, law, corporate governance and general industry. All of the members of the ARCC are Independent Non-Executive Directors.

The Committee meets quarterly and the quorum for each meeting is three members present throughout the meeting. Mandatory attendees at the meetings are the Joint Chief Executive Officers and the Financial Director of Blue Label. The external audit partner from PwC and a director from Deloitte, to whom Blue Label outsources its internal audit function, are also attendees. Both internal and external auditors are afforded the opportunity to address the meeting and have unlimited access to the Committee. During the year, the Committee met with the external and internal auditors respectively without the presence of management. The internal audit function reports directly to the ARCC and is also responsible to the Financial Director on day-to-day administrative matters.

Audit, Risk and Compliance Committee's report continued

Statutory duties discharged

In execution of its statutory duties during the year under review, the Committee:

- nominated and recommended to shareholders the reappointment of PwC as independent external auditors, with Pietro Calicchio the audit partner, as the registered independent auditor;
- approved the fees to be paid to PwC and other external auditors, where applicable, and approved the terms of engagement;
- maintained a non-audit services policy which determines the nature and extent of any non-audit services that PwC may provide to the Group;
- discharged those statutory duties as prescribed by section 94 of the Act, acting in its capacity as the appointed Audit Committee of the subsidiary companies of Blue Label;
- considered the Committee's report describing how duties have been discharged; and
- submitted matters to the Board concerning the Company's accounting policies, financial controls, records and reporting, as appropriate.

Other duties to discharge

Financial statements and reporting

The Committee:

- monitored compliance with accounting standards and legal requirements and ensured that all regulatory compliance matters had been considered in the preparation of the financial statements;
- reviewed the external auditor's report to the Committee and management's responses thereto and made appropriate recommendations to the Board of Directors regarding actions to be taken;
- reviewed and commented on the annual financial statements, interim reports, paid advertisements, announcements and the accounting policies and recommended these to the Board for approval;
- reviewed and recommended to the Board for adoption the consolidated budget for the ensuing financial year; and
- considered the going concern status of the Company and Group on the basis of review of the annual financial statements and the information available to the Committee and recommended such going concern status for adoption by the Board. The Board statement on the going concern status of the Group and Company is contained in the Directors' report.

External audit and non-audit services

The ARCC has satisfied itself as to the independence of the external auditor, PwC, as set out in section 94(7) of the Act, which includes consideration of compliance with criteria relating to independence or conflicts of interest as prescribed by the Independent Regulatory Board for Auditors, including tenure of the audit firm and rotation of the designated individual partner. Requisite assurance was sought from and provided by PwC that internal governance processes within the firm support and demonstrate its claim to independence. PwC has been the auditor of the Company for 18 years.

To assess the effectiveness of the external auditors, the Committee considered the quality, delivery and execution of the agreed audit plan and variations from the plan, and the robustness and perceptiveness of PwC in its handling of key accounting treatments and disclosures. The ARCC has been informed of the most recent results of PwC's regulatory and firm inspection results and is satisfied with the results thereof.

The Committee, in consultation with Executive Management, agreed to the engagement letter, terms, audit plan and budgeted audit fees for the 2022 financial year.

Any non-audit services to be provided by the external auditors are governed by a formal written policy which incorporates a monetary delegation of authority in terms of non-audit services to be provided. The non-audit services rendered by the external auditors during the year ended 31 May 2022 comprised tax advisory services, tax compliance services and general advisory services. The fees applicable to the aforementioned services totalled R3.1 million (2021: R2.4 million).

The ARCC has nominated, for approval at the AGM, the reappointment of PwC as registered auditors for the 2023 financial year. The Committee also satisfied itself in terms of paragraph 3.84(g)(iii) of the JSE Listings Requirements that PwC and the designated individual partner are suitable for appointment having requested and considered the information detailed in paragraph 22.15(h) of the JSE Listings Requirements.

Internal audit and internal controls

Blue Label's internal audit function was outsourced to KPMG for part of the year, and to Deloitte for the remainder of the year and going forward, and the role of the Chief Audit Executive is fulfilled by the Engagement Director. The ARCC concludes that the Chief Audit Executive and internal audit arrangements are effective and independent.

The Committee:

- reviewed the co-operation and co-ordination between the internal and external audit functions in order to avoid duplication of work and to work towards an effective and efficient combined/integrated assurance approach;
- examined and reviewed the progress made by internal audit against the approved 2021/22 audit plan;
- considered the combined/integrated assurance arrangements for the 2021/22 financial year as they pertain to the triple context;
- approved the risk-based internal audit plan for the 2021/22 financial year;
- considered the effectiveness of internal audit;
- considered internal audit findings and corrective actions taken in response to such findings; and
- reviewed the annual statement from internal audit on the effectiveness of the organisation's governance, risk management and internal control processes.

The ARCC concludes that the design and implementation of internal controls, including financial controls and risk management, are effective and has satisfied itself that appropriate financial reporting procedures exist and are working, as contemplated in paragraph 3.84(g)(ii) of the JSE Listings Requirements, which includes consideration of all the entities in the consolidated annual financial statements.

The ARCC concludes that the combined assurance arrangement is effective and will continue to evolve as the Group grows.

Risk management and compliance

In relation to the governance of risk, the Committee:

- reviewed the integrity of the risk control systems and ensured that the risk policies and strategies of the Company are effectively managed;
- made recommendations to the Board concerning the levels of tolerance and risk appetite, and monitored the management of risk exposures against these levels;
- reviewed and recommended to the Board approval of the Integrated Risk Assurance Policy and Framework;
- monitored bi-annual risk assessments and reviewed the consolidated strategic risk profile to evaluate and ensure all material risks have been identified as they pertain to the triple context of Blue Label, and are being managed appropriately;
- provided feedback to the Board on significant risks, including emerging risks, and significant changes to the risk profile;
- ensured that management considered and implemented appropriate risk responses to significant risks;
- considered the relevance and effectiveness of information and technology governance systems, processes and mechanisms to manage technology-related risks;
- reviewed and recommended to the Board risk information for disclosure, in accordance with King IV principles;
- reviewed legal matters that could have a material impact on the Group in conjunction with Blue Label's legal adviser; and
- reviewed developments in corporate governance and best practice and considered their impact and implications across the Group with particular reference to the principles of King IV.

The ARCC is satisfied that it has dedicated sufficient time to its responsibility towards the governance of risk.

The Committee is satisfied that it has exercised sufficient, ongoing oversight of compliance through:

- the continued appointment of a dedicated Compliance Officer for the Group;
- the approval of the compliance strategy;
- the approval of the regulatory compliance policy and the compliance process;
- annual review of the Company's regulatory universe in order to prioritise regulatory compliance efforts;
- ongoing development and review of compliance risk management plans;
- continuous monitoring of the regulatory environment to ensure that the Group keeps abreast of matters affecting its regulatory environment;
- identification and monitoring of key compliance risks across the Group; and
- making use of a compliance maturity model to assess progress in the management of compliance.

Audit, Risk and Compliance Committee's report continued

Expertise and experience of the Financial Director and finance function

The Committee considered the appropriateness of the expertise and experience of the Financial Director and finance function in accordance with the JSE Listings Requirements and governance best practice and has satisfied itself in terms of JSE Listings Requirement 3.84(g)(i) that the Group Financial Director has appropriate expertise and experience.

The ARCC concluded that the finance function is adequately resourced with technically competent individuals and is effective. The Committee confirms that it is satisfied that Dean Suntup possesses the appropriate expertise and experience to discharge his responsibilities as Financial Director. The Committee is also satisfied that appropriate financial reporting procedures have been established and that those procedures are operating effectively.

Annual financial statements

The Committee has reviewed the accounting policies and financial statements of the Company and the Group and is satisfied that they are appropriate and comply with International Financial Reporting Standards, the JSE Listings Requirements and the requirements of the Companies Act of South Africa.

The Committee has evaluated the Group annual financial statements of Blue Label Telecoms Limited for the year ended 31 May 2022 and based on the information provided to the Committee, the Committee recommends the adoption of the annual financial statements by the Board.

The significant audit matters considered by the Committee were the impairment assessment of goodwill arising from business combinations and the intangible assets and subscription revenue sharing arrangement with Cell C.

These matters was addressed as follows:

The impairment assessment of goodwill arising from business combinations

For the year ended 31 May 2022, management performed an impairment assessment over the goodwill balance as follows:

- assessing the recoverable amount as being value-in-use, as entities are held-for-trading and not for sale;
- calculating the value-in-use for each cash-generating unit (CGU) using a discounted cash flow model; and
- performing a sensitivity analysis over the value-in-use calculations, by varying the assumptions used (growth rates, terminal growth rate and WACC, i.e. discount rate) to assess the impact on the valuations.

Based on the work performed, management concluded there was no need for any further impairment.

Recognition of the intangible asset related to the Cell C subscription income sharing arrangement

For the year ended 31 May 2022, management performed the following assessment over the recognition of the intangible asset:

- considered its rights and obligations under the agreement and applied significant judgement in determining that the Group's right to future cash flows from the arrangement should be recognised as an intangible asset rather than a financial asset; and
- identified the qualifying costs which meet the recognition criteria to be capitalised as an intangible asset.

Based on the work performed, management concluded these cash flows should be recognised as an intangible asset.

The ARCC is satisfied that it has complied with its legal, regulatory and other responsibilities as per its terms of reference.

On behalf of the Audit, Risk and Compliance Committee



JS Mthimunye
Chairman

25 August 2022

Independent auditor's report

To the Shareholders of Blue Label Telecoms Limited

Report on the audit of the consolidated financial statements

Our qualified opinion

In our opinion, except for the possible effects of the matter described in the Basis for qualified opinion section of our report, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Blue Label Telecoms Limited and its subsidiaries (together the Group) as at 31 May 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

What we have audited

Blue Label Telecoms Limited's consolidated financial statements set out on pages 18 to 112 comprise:

- the Group statement of financial position as at 31 May 2022;
- the Group income statement for the year then ended;
- the Group statement of comprehensive income for the year then ended;
- the Group statement of changes in equity for the year then ended;
- the Group statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for qualified opinion

Our audit report dated 26 August 2021 on the consolidated financial statements of the prior year contained a qualified audit opinion. That qualification arose due to our inability to obtain sufficient and appropriate audit evidence to support the going concern assumption at the Group's equity-accounted associate, Cell C Limited ("Cell C"). As disclosed in note 2 to the consolidated financial statements, the restructuring of the operations and capital structure of Cell C is still in progress and the outcome thereof remains uncertain as at the date of this audit report. As a result, we are still unable to obtain sufficient and appropriate audit evidence to support the going concern assumption for Cell C.

Under an alternative basis of preparation, the assets and liabilities of Cell C may be impaired, measured at fair value rather than cost, or written off entirely, depending on how Cell C plans to recover or settle these assets and liabilities.

The possible effect of this matter on the consolidated financial statements would be that the disclosure of the summary financial information of Cell C for both the current and prior year, as presented in note 2.1 to the consolidated financial statements may require material adjustment. Such material adjustment would have no impact on the current year or prior year group income statement or group statement of financial position as the investment in Cell C was fully impaired as at 31 May 2019, at which date the group ceased equity accounting for the losses of Cell C.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Independence

We are independent of the Group in accordance with the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*.

Independent auditor's report continued

To the Shareholders of Blue Label Telecoms Limited

Our audit approach

Overview



Overall group materiality

- Overall group materiality: R 124.6 million, which represents 0.7% of consolidated revenue from continuing operations.

Group audit scope

- We have identified 11 components which, in our view, require an audit, audit of specific financial statement line items or review due to their financial significance to the Group or due to their risk characteristics.

Key audit matter

- Impairment assessment of goodwill arising from business combinations.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall group materiality R 124.6 million

How we determined it 0.7% of consolidated revenue from continuing operations.

Rationale for the materiality benchmark applied

Consolidated revenue from continuing operations was selected as the benchmark because, in our view it is the benchmark against which the performance of the Group can be consistently measured, as it is an indicator of market share, which is considered to be the key objective and focus of the Group's business model and users. Profit before tax is not considered an appropriate benchmark due to its historical volatility.

We chose 0.7% based on our professional judgement and after consideration of the range of quantitative materiality thresholds that we would typically apply when using revenue to compute materiality. The considerations included taking cognisance of the intended users and distribution of the financial statements, the financial covenants held over the Group's debt as well as the inherent risk of the entity.

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group is made up of four segments, Africa Distribution, International, Solutions and Corporate. The Group's main operating subsidiaries and associates are located in South Africa. In establishing the overall audit approach to the Group audit, we determined the type of work that needed to be performed at the local operations by ourselves, as the Group engagement team, or component auditors from other PwC network firms and firms external to PwC operating under our instructions. The Group's operations vary in size. Within these segments, we have identified 11 components on which we performed either full scope audits, audit of specific financial statement line items or review for group reporting purposes depending on their financial significance and contribution to the risk of material misstatement in the consolidated financial statements. Analytical procedures were performed over all components not in scope, to confirm our risk assessment and that no additional audit procedures were required.

Detailed Group audit instructions were communicated to all components in scope and comprehensive audit approach and strategy planning meetings were held with all in scope component teams before commencing their respective audits. Throughout the audit, various calls and discussions were held with the teams of these components.

We assessed the competence, knowledge and experience of the component auditors and evaluated the procedures performed on the significant audit areas to assess the adequacy thereof in pursuit of our audit opinion on the consolidated financial statements.

Where the work was performed by the component auditors, we determined the level of involvement we needed to have in the audit work at these operations to be able to conclude whether sufficient appropriate audit evidence has been obtained as a basis for our opinion on the consolidated financial statements as a whole.

Independent auditor's report continued

To the Shareholders of Blue Label Telecoms Limited

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Basis for qualified opinion section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter

How our audit addressed the key audit matter

Impairment assessment of goodwill arising from business combinations

The Group has entered into various business combinations in prior years, which resulted in significant goodwill being recognised. The goodwill recognised in these business combinations relates mainly to expected synergies that the Group expects to derive from the transactions.

As required by IFRS, goodwill is tested annually for impairment or whenever there is an impairment indicator identified by management. The process of assessing impairment is complex and highly judgmental, and is based on a number of critical assumptions, estimates and judgements, including the terminal growth rate, discount rate and forecasted cash flows, which are affected by expected future market or economic conditions. Changes in these assumptions may lead to an impairment charge being recognised for the remaining goodwill balances.

Management's annual goodwill impairment assessments were identified as a matter of most significance to our audit because of the quantum of goodwill as at 31 May 2022, the significant judgement and estimates involved in determining the year-on-year EBITDA growth rates, subscription bases (where appropriate), terminal growth rate, discount rate and forecast cash flows, including the future market or economic conditions faced by the various businesses within the Group.

For material goodwill balances, for which the recoverable amount was determined, our audit procedures included the following:

- We evaluated management's assessment of the identification of the Group's CGUs and obtained the relevant impairment assessments performed by management for these CGUs;
- We assessed the reasonability of management's cash flow forecasts through discussions with management regarding the process followed to develop the budgets, forecasts and the assumptions utilised. We also compared the prior year budgets to the current year actual results to understand the efficacy of management's budgeting process. We accepted the budgeting inputs with reference to historical performance and industry outlook.
- We evaluated whether the assumptions used, such as working capital and capital expenditure for maintenance, had been determined and applied consistently across the CGUs and found these to be consistent;
- We agreed the budgets to the latest board-approved annual budgets for the next financial year, and assessed whether the subsequent four years' budgets were prepared on a consistent basis. We noted that the one year budget was consistent with that approved by the board, and that budgeting across all five years was consistently applied and utilised in the valuations;
- We assessed the mathematical accuracy of the valuations performed by management and found no material exceptions.

Key audit matter

Management performed an impairment assessment over the goodwill balance as at 31 May 2022 by performing the following:

- Assessing the recoverable amount through determination of a value-in-use amount and comparing this to the carrying amount.
- The value-in-use for each cash generating unit (CGU) was calculated using a discounted cash flow model; and
- Performing a sensitivity analysis over the value-in-use calculations, by varying the assumptions used (year-on-year EBITDA growth rates, subscription bases (where appropriate), terminal growth rate and the weighted average cost of capital i.e. discount rate) to assess the impact on the value-in-use.

Refer to note 4.1 to the consolidated financial statements for details of management's impairment tests and assumptions.

How our audit addressed the key audit matter

- We made use of our internal valuations expertise to independently calculate discount rates taking into account independently obtained data, such as the cost of debt, risk free rates in the market, market risk premiums, country risk premium, specific risk premium, debt/equity ratios, as well as the beta of comparable companies. This was compared to the discount rates used by management. Where differences were noted, we discussed these with management and evaluated whether in those instances the different rates would have resulted in an impairment. We found the discount rates used by management to be within acceptable ranges of our independent calculations and no material impairments were indicated by any differences in discount rates.
- We compared the terminal growth rates to forecast industry trends and to independent sources for similar operations. No significant deviations were noted.
- We assessed the approaches adopted by management in the valuation models for goodwill and found that the approaches were in line with market practice and the applicable requirements of International Accounting Standard (IAS) 36: Impairment of Assets.
- We performed independent sensitivity calculations on the impairment assessments, to assess the degree by which the key assumptions needed to change in order to trigger an impairment. We discussed these with management and based on the evidence obtained we did not identify any further matters for consideration.

Independent auditor's report **continued**

To the Shareholders of Blue Label Telecoms Limited

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled "Blue Label Telecoms Limited Annual Financial Statements 2022" and "Blue Label Group Annual Financial Statements 2022", which includes the Directors' Report, the Audit, Risk and Compliance Committee's Report and the Declaration by the Company Secretary as required by the Companies Act of South Africa, which we obtained prior to the date of this auditor's report, and the other sections of the document titled "Blue Label Telecoms Integrated Annual Report 2022", which is expected to be made available to us after that date. The other information does not include the consolidated or the separate financial statements and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described in the Basis for qualified opinion section above, we were unable to obtain sufficient appropriate audit evidence supporting the application of the going concern assumption at Cell C, and its impact on the disclosure of summary financial information for Cell C in the consolidated financial statements of the Group. Accordingly, we are unable to conclude whether or not the other information is materially misstated with respect to this matter.

Responsibilities of the directors for the consolidated financial statements

The directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

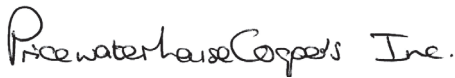
We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that PricewaterhouseCoopers Inc. has been the auditor of Blue Label Telecoms Limited for 18 years.



PricewaterhouseCoopers Inc.

Director: Pietro Calicchio

Registered Auditor

Johannesburg, South Africa

25 August 2022

Group income statement

for the year ended 31 May 2022

	Notes	2022 R'000	2021 R'000
CONTINUING OPERATIONS			
Revenue	1.2	17 395 281	18 438 662
Finance revenue	1.2	410 981	382 628
Total revenue	1.2	17 806 262	18 821 290
Other income		390 851	103 684
Direct operating costs*		(14 858 153)	(16 378 665)
Finance costs incurred in the generation of revenue		(17 135)	(59 371)
Employee compensation and benefit expense	5.2	(780 255)	(637 387)
Depreciation and amortisation		(174 045)	(188 883)
Impairments and fair value movements	1.3	63 246	7 795
Bad debts and expected credit loss	1.3	(327 761)	11 900
Other expenses		(578 561)	(508 973)
Operating profit		1 524 449	1 171 390
Finance costs	1.4	(201 225)	(131 947)
Finance income	1.4	80 993	59 717
Share of gains from associates and joint ventures	2.1	8 042	2 951
Profit before taxation		1 412 259	1 102 111
Taxation	7.1	(320 262)	(249 416)
Profit after taxation from continuing operations		1 091 997	852 695
Profit from discontinued operations	11	—	25 321
Profit for the year		1 091 997	878 016
Profit for the year from continuing operations attributable to:			
Equity holders of the parent		1 027 079	805 286
Non-controlling interest		64 918	47 409
Profit for the year from discontinued operations attributable to:			
Equity holders of the parent		—	25 321
Non-controlling interest		—	—
Earnings per share for profit attributable to:			
Equity holders (cents)			
– Basic	1.5	117.13	94.55
– Diluted	1.5	114.14	91.36

* Direct operating expenses are the operating expenses directly attributable to the production of goods and services sold by the Group. These include, but are not limited to, the costs associated with the acquisition of airtime and handsets sold by the Group.

Group statement of comprehensive income

for the year ended 31 May 2022

	2022 R'000	2021 R'000
Profit for the year	1 091 997	878 016
Other comprehensive income:		
Items reclassified to profit or loss		
Foreign currency translation reserve reclassified to profit or loss*	—	(52 538)
Loss arising on changes in fair value of hedging instruments (ineffective portion)**	—	(45)
Loss on hedging instruments reclassified to profit or loss (effective portion)**	(2 680)	(1 001)
Income tax related to amounts reclassified to profit or loss	750	293
Items that may be subsequently reclassified to profit or loss		
Foreign exchange profit/(loss) on translation of associates and joint ventures*	1 251	(8 826)
Gain arising on changes in fair value of hedging instruments (effective portion)	10 262	7 751
Income tax related to gains recognised in other comprehensive income	(2 635)	(2 170)
Other comprehensive income/(loss) for the year, net of tax	6 948	(56 536)
Total comprehensive income for the year	1 098 945	821 480
Total comprehensive income for the year attributable to:		
Equity holders of the parent	1 034 027	774 071
Non-controlling interest	64 918	47 409
Total comprehensive income for the year attributable to equity holders of the parent arises from:		
Continuing operations	1 034 027	774 071
Discontinued operations	—	25 321

* These components of other comprehensive income do not attract any tax.

** These items are included in finance costs.

Group statement of financial position

as at 31 May 2022

	Notes	31 May 2022 R'000	31 May 2021 R'000
ASSETS			
Non-current assets		3 499 479	2 821 283
Property, plant and equipment	4.3	195 313	194 193
Right-of-use assets	3.9	36 266	58 746
Intangible assets	4.2	1 665 549	1 051 627
Goodwill	4.1	681 754	681 754
Investments in and loans to associates and joint ventures	2.1	98 892	62 996
Loans receivable	3.5.1	48 913	44 232
Advances to customers	3.5.3	547 711	570 456
Financial assets at fair value through profit or loss	3.7	133 293	75 342
Financial assets at fair value through other comprehensive income	3.8	8 536	6 915
Deferred taxation assets	7.2	83 252	75 022
Current assets		9 829 505	8 629 196
Loans to associate	2.1	25 858	15 369
Inventories	4.4	1 143 372	965 946
Loans receivable	3.5.1	32 801	25 572
Trade and other receivables	3.5.2	4 743 338	3 752 019
Advances to customers	3.5.3	1 119 827	1 241 832
Financial assets at fair value through profit or loss	3.7	14 008	143 797
Financial assets at fair value through other comprehensive income	3.8	11 688	—
Current tax assets		15 022	67 336
Cash and cash equivalents	3.5.4	2 723 591	2 417 325
Total assets		13 328 984	11 450 479
EQUITY AND LIABILITIES			
Capital and reserves		4 187 598	3 233 348
Issued share capital and premium		7 544 531	7 543 436
Other reserves	6.2	(2 871 437)	(2 732 783)
Retained earnings		(585 307)	(1 612 386)
Total ordinary shareholders' equity		4 087 787	3 198 267
Non-controlling interest		99 811	35 081
Non-current liabilities		783 878	237 563
Deferred taxation liabilities	7.2	299 909	194 520
Non-current lease liability	3.9	9 498	40 265
Borrowings	3.6.2	474 471	2 778
Current liabilities		8 357 508	7 979 568
Trade and other payables	3.6.1	6 069 027	5 975 118
Deferred revenue*	3.6.4	113 367	77 731
Lease liability	3.9	37 384	32 860
Financial guarantee contracts	3.6.3	—	105 621
Provisions		—	500
Financial liabilities at fair value through profit or loss	3.7	22 200	68 742
Current tax liabilities		21 467	14 504
Borrowings	3.6.2	2 094 000	1 704 374
Bank overdraft	3.5.4	63	118
Total equity and liabilities		13 328 984	11 450 479

* Deferred revenue was previously aggregated into 'Trade and other payables'. This balance has now been presented separately due to its significance.

Group statement of changes in equity

for the year ended 31 May 2022

	Notes	Issued share capital and premium R'000	Retained earnings R'000
Balance as at 1 June 2020		7 573 586	(2 442 993)
Profit for the year		—	830 607
Other comprehensive loss		—	—
Total comprehensive income/(loss)		—	830 607
Treasury shares purchased	6.1	(43 924)	—
Equity compensation benefit scheme shares vested		13 774	—
Equity compensation benefit movement		—	—
Dividends paid		—	—
Balance as at 31 May 2021		7 543 436	(1 612 386)
Profit for the year		—	1 027 079
Other comprehensive income		—	—
Total comprehensive income		—	1 027 079
Treasury shares purchased	6.1	(9 301)	—
Equity compensation benefit scheme shares vested		10 396	—
Equity compensation benefit movement		—	—
Acquisition of non-controlling interest	6.2	—	—
Dividends paid		—	—
Balance as at 31 May 2022		7 544 531	(585 307)

Other reserves R'000	Total ordinary shareholders' equity R'000	Non-controlling interest R'000	Total equity R'000
(2 689 960)	2 440 633	44 484	2 485 117
—	830 607	47 409	878 016
(56 536)	(56 536)	—	(56 536)
(56 536)	774 071	47 409	821 480
—	(43 924)	—	(43 924)
(13 471)	303	(303)	—
27 184	27 184	639	27 823
—	—	(57 148)	(57 148)
(2 732 783)	3 198 267	35 081	3 233 348
—	1 027 079	64 918	1 091 997
6 948	6 948	—	6 948
6 948	1 034 027	64 918	1 098 945
—	(9 301)	—	(9 301)
(9 954)	442	(442)	—
30 446	30 446	1 832	32 278
(166 094)	(166 094)	28 472	(137 622)
—	—	(30 050)	(30 050)
(2 871 437)	4 087 787	99 811	4 187 598

Group statement of cash flows

for the year ended 31 May 2022

	Notes	2022 R'000	2021 R'000
Cash flows from operating activities			
Cash received from customers		16 698 666	18 988 312
Cash paid to suppliers, financiers and employees		(15 764 089)	(17 248 453)
Cash generated by operations	1.6	934 577	1 739 859
Interest received		80 993	59 719
Interest paid		(201 091)	(126 780)
Taxation paid		(165 710)	(204 756)
Net cash generated from operating activities		648 769	1 468 042
Cash flows from investing activities			
Acquisition of intangible assets*		(1 013 334)	(36 704)
Proceeds on disposal of intangible assets		—	4 301
Acquisition of property, plant and equipment		(77 813)	(71 214)
Proceeds on disposal of property, plant and equipment		9 793	4 115
Acquisition of subsidiary, net of cash acquired		—	83
Acquisition of shares in associate		(15 340)	—
Contingent consideration received**		117 791	—
Proceeds from disposal of shares in joint ventures		—	190 555
Liquidity support granted		—	(331 000)
Loans advanced to associates and joint ventures		(26 565)	(52 259)
Loans repaid by associates and joint ventures		1 805	39 204
Dividend received from associate and joint venture	2.1	5 885	14 000
Loans granted		(40 774)	(74 274)
Loans receivable repaid		27 943	67 520
Net cash utilised in investing activities		(1 010 609)	(245 673)
Cash flows from financing activities			
Interest-bearing borrowings raised	3.6.2	1 627 141	152 007
Interest-bearing borrowings repaid	3.6.2	(870 502)	(751 053)
Non-interest-bearing borrowings raised	3.6.2	—	270
Non-interest-bearing borrowings repaid	3.6.2	(270)	(13 959)
Lease repayments	3.9	(37 857)	(49 900)
Settlement of financial guarantee	3.6.3	—	(53 285)
Settlement of forward exchange contracts		—	(2 895)
Acquisition of non-controlling interest	6.2	(11 000)	—
Acquisition of treasury shares***	6.1	(9 301)	(43 924)
Dividends paid to non-controlling interest		(30 050)	(57 148)
Net cash generated by/(utilised in) financing activities		668 161	(819 887)
Net increase in cash and cash equivalents		306 321	402 482
Cash and cash equivalents at the beginning of the year		2 417 207	2 014 725
Cash and cash equivalents at the end of the year	3.5.4	2 723 528	2 417 207

* Acquisitions of intangible assets in the current period include significant cash outflows of R928 million relating to the subscription income sharing arrangement that commenced during the 2021 financial year.

** Settlement of the contingent consideration relating to the disposal of the VAS operations in April 2020.

*** Approximately 1.4 million shares were repurchased over the period 4 to 5 April 2022 at a weighted average price of R6.45 per share.

Notes to the Group annual financial statements

for the year ended 31 May 2022

1. Results of operations

1.1 Segmental summary

The Group's segment reporting follows the organisational structure as reflected in its internal management reporting systems, which are the basis for assessing the financial performance of the business segments and for allocating resources to these segments. Management's assessment of the Group's organisational structure takes the geographical location of the segments into account.

Operating segments are reported internally to the chief operating decision-maker in a manner consistent with the financial statements. In addition, the chief operating decision-maker uses core headline earnings as a non-IFRS measure in evaluating the Group's performance on a segmental level. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Directors, who are responsible for making strategic decisions on behalf of the Group.

Transactions between reportable segments are conducted on similar terms as other transactions of a similar nature.

Notes to the Group annual financial statements continued

for the year ended 31 May 2022

1. Results of operations continued

1.1 Segmental summary continued

The segment results for the year ended 31 May 2022 are as follows:

	Total		Africa Distribution	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
Continuing operations				
Total segment revenue	24 531 675	26 524 093	24 023 222	26 177 843
Internal revenue	(6 725 413)	(7 702 803)	(6 470 619)	(7 536 312)
Revenue	17 806 262	18 821 290	17 552 603	18 641 531
Segment result				
Operating profit/(loss) before depreciation, amortisation and the additional items listed below	1 963 009	1 340 578	2 023 935	1 436 184
Fair value gain/(loss) on surety receivable	12 859	(21 116)	—	—
Fair value gain on SPV2	—	16 009	—	16 009
Fair value gain on other financial instruments	50 387	12 902	4 208	3 556
Expected credit loss on loans	(73)	61 810	602	(6 176)
Financial guarantee contracts	671	33 455	671	8 250
Bad debts and expected credit losses on trade receivables, other receivables and advances to customers	(328 359)	(83 365)	(328 572)	(83 088)
Depreciation and amortisation	(174 045)	(188 883)	(153 205)	(168 402)
Operating profit/(loss)	1 524 449	1 171 390	1 547 639	1 206 333
Finance costs	(201 225)	(131 947)	(197 477)	(126 381)
Finance income	80 993	59 717	79 733	59 361
Share of profits/(losses) from associates and joint ventures	8 042	2 951	1 678	3 783
Taxation	(320 262)	(249 416)	(313 621)	(280 271)
Profit/(loss) for the year from continuing operations	1 091 997	852 695	1 117 952	862 825
Profit/(loss) for the year from continuing operations attributable to:				
Equity holders of the parent	1 027 079	805 286	1 058 951	820 819
Non-controlling interest	64 918	47 409	59 001	42 006
Profit from discontinued operations attributable to equity holders of the parent	—	25 321	—	25 321
Profit/(loss) for the year attributable to equity holders of the parent	1 027 079	830 607	1 058 951	846 140
Reconciliation of profit/(loss) for the year to core headline earnings for the year				
Profit/(loss) for the year attributable to equity holders of the parent	1 027 079	830 607	1 058 951	846 140
Amortisation of intangibles raised through business combinations net of tax and non-controlling interest	32 169	30 663	32 169	30 663
Headline earnings adjustment	1 832	(73 690)	1 708	3 859
Core headline earnings for the year	1 061 080	787 580	1 092 828	880 662

The Company is domiciled in the Republic of South Africa. The continuing revenue earned from external customers in South Africa is R17.8 billion (2021: R18.8 billion), and from external customers from other countries is R2.6 million (2021: R1.9 million).

The Africa Distribution segment includes revenue of R3.6 billion and R2.5 billion earned from two external customers.

At 31 May 2022, the Group is managed on the basis of four main business segments:

- Africa Distribution includes the distribution of prepaid airtime, starter packs and electricity of the South African network operators and utility suppliers, and the distribution and financing of handsets, tablets and other devices within South Africa and certain African countries.
- International includes associate operations involved in the distribution of prepaid airtime in Mexico, which was disposed of in the prior year, and the investment in Oxigen Services India. Refer to note 2.1.
- Solutions includes marketing of cellular and financial products and services through outbound telemarketing and other channels, provides inbound customer care and technical support, and markets data and analytics services.
- Corporate performs the head office administration function.

International		Solutions		Corporate	
2022 R'000	2021 R'000	2022 R'000	2021 R'000	2022 R'000	2021 R'000
—	—	254 571	186 145	253 882	160 105
—	—	(912)	(6 386)	(253 882)	(160 105)
—	—	253 659	179 759	—	—
(620)	30 752	27 494	17 028	(87 800)	(143 386)
12 859	(21 116)	—	—	—	—
—	—	—	—	—	—
—	—	—	—	46 179	9 346
(471)	41 189	(204)	(5)	—	26 802
—	—	—	—	—	25 205
—	—	213	(277)	—	—
—	—	(628)	(748)	(20 212)	(19 733)
11 768	50 825	26 875	15 998	(61 833)	(101 766)
—	—	(236)	(166)	(3 512)	(5 400)
—	—	1 108	234	152	122
—	(6 554)	6 364	5 722	—	—
(2 119)	23 750	865	5 026	(5 387)	2 079
9 649	68 021	34 976	26 814	(70 580)	(104 965)
9 649	68 021	29 059	21 411	(70 580)	(104 965)
—	—	5 917	5 403	—	—
—	—	—	—	—	—
9 649	68 021	29 059	21 411	(70 580)	(104 965)
9 649	68 021	29 059	21 411	(70 580)	(104 965)
—	—	—	—	—	—
—	(79 493)	428	—	(304)	1 944
9 649	(11 472)	29 487	21 411	(70 884)	(103 021)

Discontinued operations

The prior year segmental results account for the discontinued operations within the Africa Distribution segment (WiConnect).

Core headline earnings

Core headline earnings is a non-IFRS measure used by the Group in evaluating the Group's performance. This supplements the IFRS measures. Core net profit is calculated by adjusting net profit for the year with the amortisation of intangible assets net of deferred taxation and non-controlling interests that arise as a consequence of the purchase price allocations completed in terms of IFRS 3 – *Business Combinations*. Core headline earnings is calculated by adjusting core net profit with the headline earnings adjustments required by SAICA circular 1/2021.

Reconciliation of core headline earnings to relevant IFRS measures is presented in note 1.5.

Notes to the Group annual financial statements continued

for the year ended 31 May 2022

1. Results of operations continued

1.2 Revenue

The Group earns revenue from the sale of goods and the provision of services through its vast proprietary distribution channels and platforms. Owing to the wide array of products and services provided, the Group interacts with a broad cross-section of South African society. The Group generates revenue based on various contractual arrangements with its customers, the major sources of which are listed below. These sources aggregate revenue by nature, extent, timing and risk.

Revenue source	Performance obligations included	Recognition
Prepaid airtime, data and related revenue	a. Prepaid airtime and data The sale of prepaid airtime and data represents the majority of Group revenue. Prepaid airtime and data is either physical PIN, virtual PIN or PINless. Physical PIN inventory is sold in bulk to customers (who themselves are generally distributors) as and when they place orders with Blue Label. Customers will either collect the physical stock at Blue Label depots or it will be delivered via courier to them. Virtual PIN inventory is delivered as a stock file via secure file transfer protocol to a customer's point of sales device, secure network location or sales terminal. This file contains the same information delivered to Blue Label by the mobile networks, being PIN numbers, product codes, serial numbers and expiry dates. PINless sales relate to airtime and data sold that is not in the form of either a virtual PIN or physical voucher and accordingly no inventories exist. Airtime or data is requested by an end-user via one of the Group's customer's integrated systems, upon which Blue Label will automatically notify the applicable network to increase the relevant end-user balance. Blue Label does not take control of PINless stock at any point. b. Commissions, bonuses and incentives Commissions, bonuses and incentives related to the sales of prepaid airtime and data are earned by the Group based on reward structures agreed with the cellular network providers.	a. Prepaid airtime and data Physical and virtual PIN inventory sales are recognised on transfer of control of stock to the customer. Control is transferred at the point of delivery of physical stock or stock files to the customer. In general, the Group does not provide warranties, nor the right of return on inventory that has been delivered as it cannot reasonably determine whether any PINs have already been activated. The Group considers itself as the principal in the sale of PIN inventory sales, and thus recognises the full face value (transaction price) of the voucher sold net of any discounts in revenue. PINless sales are recognised on the successful completion of the airtime or data reload transaction, which culminates in an increase of the end-user's balance. It is at this point that the Group has completed its performance obligation to connect the parties through its integrated system and facilitate the transaction. The Group considers itself as the agent in the sale of PINless airtime and data, and thus recognises only the commission on the sale as revenue. b. Commissions, bonuses and incentives Commissions, bonuses and incentives related to the sales of prepaid airtime are recognised on a systematic basis (generally monthly) once the Group has established its right to receive payment based on the achievement of the sales, activations or recharges criteria for the period measured.

Measurement and terms of sale

a. Prepaid airtime and data

Physical and virtual PIN inventory sales are measured at the face value (transaction price) of the voucher sold net of any discounts. Payment arrangements vary per customer and can range from payment before delivery to terms of up to 60 days.

PINless sales are based on the commission percentage earned on the face value (transaction price) of the airtime and data sold. Payment terms for PINless sales do not generally exceed three days, with settlement usually taking place the next business day.

b. Commissions, bonuses and incentives

Commissions, bonuses and incentives are measured based on the contractual value or percentage commission earned in accordance with agreements between the Group and the relevant cellular network. Payment terms do not exceed 30 days.

Critical estimates and judgements

a. Prepaid airtime and data

The Group has considered whether it acts in the capacity of an agent or principal in the sale of physical and virtual PIN inventory. Among other considerations, the Group maintains control of the stock prior to sale and bears all risks related to it. The Group has concluded that, in respect of these sales, it acts as principal.

In relation to PINless sales, the Group has concluded that it acts in the capacity of an agent as its primary responsibility is the facilitation of the reload transaction rather than the handling and distribution of an inventory item.

b. Commissions, bonuses and incentives

No significant judgements or estimates.

Notes to the Group annual financial statements continued

for the year ended 31 May 2022

1. Results of operations continued

1.2 Revenue continued

Revenue source	Performance obligations included	Recognition
Postpaid airtime, data and related revenue	a. Postpaid airtime and data Postpaid revenue is different in nature, timing and risk to prepaid airtime and accordingly is managed as a separate source. Postpaid airtime is generally sold in terms of hybrid postpaid arrangements with customers. Hybrid arrangements provide the customer with a fixed amount of airtime which, when exhausted, will result in the conversion of the customer to prepaid. Both postpaid and prepaid revenue generated in terms of this delivery model is included in this aggregation. The Group's performance obligation on a hybrid contract is to make available an active line for the month and provide the agreed airtime value for the customer to use on that line. b. Commissions, bonuses and incentives Commissions, bonuses and incentives related to these arrangements, including the sale of prepaid airtime and data to this customer base, are earned by the Group in accordance with reward structures agreed with the cellular network providers.	a. Postpaid airtime and data Revenue earned on postpaid and hybrid contracts is recognised monthly when invoiced to the customer in arrears. The Group's performance obligation is the provision of a line with airtime supplied over the duration of the contract, and accordingly revenue is recognised over time. Sales of prepaid airtime to postpaid customers is recognised in the same manner as the sale of prepaid airtime to prepaid customers described above. b. Commissions, bonuses and incentives Commissions, bonuses and incentives are measured based on the contractual value or percentage commission earned in accordance with agreements between the Group and the relevant cellular network. Payment terms do not exceed 30 days.
Prepaid and postpaid SIM cards	a. SIM cards and preloaded airtime Physical SIM cards are either sold to customers independently or with preloaded airtime through the Group's wholesale and retail distribution channels. The sale of a SIM card with preloaded airtime is considered one performance obligation by the Group and accounted for entirely within this aggregation. b. Activation bonuses and ongoing revenue Activation bonuses are earned from the cellular networks on the successful activation of a SIM card. Ongoing commissions are earned on any subsequent airtime recharges by the customer utilising the SIM card.	a. SIM cards and preloaded airtime Revenue earned on the sale of the physical SIM card starter pack inventory, as well as preloaded airtime, is recognised when a SIM card is initially sold to the customer. b. Activation bonuses and ongoing revenue Activation bonuses received from the networks are recognised when the SIM card is activated on the relevant mobile network. Activation criteria, as well as the point of activation, is determined by the mobile networks. Ongoing revenue and other incentives are recognised once the associated contractual criteria have been met.

Measurement and terms of sale

a. Postpaid airtime and data

Revenue earned on postpaid and hybrid contracts is measured at the face value (transaction price) of the fixed airtime provided, net of any discounts. Payment terms are generally 30 days from invoice. Prepaid airtime sold to postpaid customers is measured in the same manner described above for sales to prepaid customers.

b. Commissions, bonuses and incentives

Commissions, bonuses and incentives are measured based on the contractual value or percentage commission earned in accordance with agreements between the Group and the relevant cellular network. Payment terms do not exceed 30 days.

Critical estimates and judgements

a. Postpaid airtime and data

The Group acts in the capacity of principal in relation to postpaid and hybrid contracts as the Group takes the full inventory risk, sets the price for these contracts to the end-users and is the primary obligor.

b. Commissions, bonuses and incentives

No significant judgements or estimates.

a. SIM cards and preloaded airtime

Revenue on the sale of the physical SIM card starter pack inventory and any preloaded airtime is measured at the individual selling price of the inventory and preloaded airtime, net of any discounts. Where the SIM card starter pack inventory is sold on extended credit terms (greater than 12 months), the revenue recognised is reduced by the financing component, which is subsequently recognised over the projected term at the effective interest rate. The payment terms for SIM card starter pack inventory sales sold on normal payment terms are between 30 and 90 days. Extended terms vary between three and 48 months.

b. Activation bonuses and ongoing revenue

Activation bonuses and ongoing commissions are measured at the contractual amounts receivable. The payment terms for activation bonuses and ongoing commissions are between 30 and 90 days.

a. SIM cards and preloaded airtime

Critical estimates include the estimation of the anticipated repayment term and discount rate for SIM card inventory sold on extended credit terms. The Group uses the South African Reserve Bank prime lending rate as a reference to determine the rate used in assessing the significant financing component of these sales. The Group acts in the capacity of a principal on the sale of SIM card inventory.

b. Activation bonuses and ongoing revenue

The Group recognises the variable consideration relating to ongoing revenue as and when it is received because it is only at this point that it is highly probable that a significant reversal in revenue for that contract will not occur in the future. Ongoing revenue is fully constrained at the individual contract level due to the high variability in behaviour of the individual customers, including the period over which prepaid customers remain on the same SIM card (this can range from one day to a number of years) and the spending patterns of individual customers, which is also highly variable. In addition, because the terms of the ongoing revenue structure with the telecommunication companies are regularly up for negotiation, the Group is not able to predict the likelihood or magnitude of a revenue reversal.

Notes to the Group annual financial statements continued

for the year ended 31 May 2022

1. Results of operations continued

1.2 Revenue continued

Revenue source	Performance obligations included	Recognition
Services	Major sources of services revenue include location-based services, SMS transaction services, value-added services in the form of media and content supply to customers, call centre and data transaction services, technology services and payment provision services.	Revenue earned from services is recognised in the accounting period in which they are rendered. Where services revenue is recognised over time, the completion of the specific transaction is assessed on the basis of the actual service provided as a proportion of the total service to be provided. Due to the nature of the services rendered by the Group, most are short term in duration (less than one month), and seldom, if ever, impact more than one accounting period.
Electricity commissions	The Group earns commissions on the facilitation of prepaid electricity sold to customers on behalf of utility suppliers.	Electricity commissions earned are recognised on the sale of a voucher to the customer. The Group cannot accept returned vouchers. Vouchers expire 12 months after issue; however, the number of expired vouchers is not significant and thus does not materially affect the quantum of commissions earned.
Handsets, tablets and other devices	This category represents revenue earned on the sale of handsets, tablets, accessories and other devices to customers through the Group's wholesale and retail distribution channels.	Revenue from the sale of these goods is recognised at a point in time when control of the goods transfers to the customer, which is generally on acceptance of the goods by the customer.
Other revenue	Other revenue earned by the Group on products and services which are incidental or complementary to those described above include the installation of prepaid electric meters, electricity audit projects undertaken on electricity sales for municipalities, rentals earned on point of sale and other devices used to facilitate the above major revenue streams, the sale of betting vouchers, the sale of tickets for transportation and to sporting events, and the facilitation of bill payments.	Revenue is recognised either at a point in time or over time as control is transferred to the customer in the arrangement.
Subscription income share	This category represents the Group's share of Cell C's income, under the subscription income sharing arrangement (refer to note 4.2(e)), from particular postpaid subscribers that sign up, extend or upgrade their subscriptions with Cell C after 1 November 2020. The handset sales associated with this arrangement are also represented within this category.	The Group's share of subscription income is recognised as revenue as and when Cell C earns the income from the particular postpaid subscribers.
Finance revenue	Interest income earned on financing arrangements where the core business of the Group is the provision of financing to its customers in its capacity as a principal financier.	Finance revenue is recognised on the accrual basis over the term of the financing provided.

Measurement and terms of sale

Revenue earned on transaction linked services is measured at the effective unit selling price of the service provided at the point of provision. If the service is not directly transaction linked, or provided over a longer period of time, the proportion of the selling price relating to the actual services provided compared to the total services to be provided is recognised on a monthly basis in arrears. Payment terms are between one day and 30 days.

Electricity commissions earned are measured at the contractually agreed commission percentage per rand of electricity sold. Payment terms are generally 30 to 60 days.

Revenue on the sale of these goods is measured at the effective selling price of the items sold after subtracting discounts and rebates granted to customers on volume purchases and early settlement where applicable. Payment terms are between 30 and 60 days.

Revenue is measured at the consideration received in terms of the arrangement with the customer. Payment terms are generally between 30 and 60 days.

The Group's share of subscription income is recognised as revenue based on the net cash flows which the Group is entitled to from Cell C that relate to the particular postpaid subscribers. The net cash flows are determined after deducting the operating costs of Cell C, borne by the Group, that are associated with these subscribers, as and when they are incurred by Cell C. To the extent the Group has facilitated the procurement of handsets to enable Cell C to fulfil its obligation of providing such handsets to these subscribers, the Group's costs are also deducted in measuring the Group's share of subscription income and handset revenue.

Finance revenue is measured at the effective interest rate implicit in the financing arrangement.

Critical estimates and judgements

The Group applies its judgement in the recognition of services revenue as either principal or agent. This will depend on the nature and contractual arrangements of the service provided. The Group considers who controls the service prior to it being provided, who is responsible for the performance of the service and who sets the price for the service provided. Due to the short-term nature of the services provided by the Group, no significant judgements or estimates are required to be made regarding the timing or amount of revenue recognised.

The Group acts in the capacity of an agent in relation to electricity commissions. The Group has applied the same factors as those considered for services revenue in making this determination.

The Group has assessed that the right of return that customers have in relation to sold goods does not have a significant impact on the revenue recognised. This is due to the fact that the majority of returns are related to products returned under warranty where back to back warranty arrangements are in place with the product manufacturer and thus there is a minimal impact on revenue recognised.

No significant judgements or estimates.

Since it is Cell C that transfers goods or services to the subscribers, and not the Group, the subscribers are not considered to be customers of the Group. Similarly, Cell C is not a customer of the Group as the Group does not transfer goods or services to Cell C. Accordingly, the Group's share of subscription income does not constitute revenue from contracts with customers as defined in IFRS 15 – *Revenue from Contracts with Customers*. It is considered to be income arising in the course of the Group's ordinary activities, and is therefore presented as revenue.

No significant judgements or estimates.

Notes to the Group annual financial statements continued

for the year ended 31 May 2022

1. Results of operations continued

1.2 Revenue continued

	Total		Africa Distribution		Solutions	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000	2022 R'000	2021 R'000
Revenue from contracts with customers	16 552 919	18 159 335	16 299 260	17 979 576	253 659	179 759
Prepaid airtime, data and related revenue	14 556 809	16 370 708	14 556 809	16 370 708	—	—
Postpaid airtime, data and related revenue	106 285	103 656	106 285	103 656	—	—
Prepaid and postpaid SIM cards	504 111	532 073	504 111	532 073	—	—
Services	394 253	344 603	140 594	164 844	253 659	179 759
Electricity commission	336 197	350 912	336 197	350 912	—	—
Handsets, tablets and other devices	274 447	199 246	274 447	199 246	—	—
Other revenue*	380 817	258 137	380 817	258 137	—	—
Subscription income share	842 362	279 327	842 362	279 327	—	—
Revenue	17 395 281	18 438 662	17 141 622	18 258 903	253 659	179 759
Finance revenue	410 981	382 628	410 981	382 628	—	—
Total revenue	17 806 262	18 821 290	17 552 603	18 641 531	253 659	179 759

* Other revenue predominantly includes audit projects on municipalities and commissions earned on the sale of betting vouchers, bus ticketing and the facilitation of bill payments.

Revenue generating entities accounted for as discontinued operations that were previously disclosed within the Africa segment are not included in current or prior period revenue per the Group statement of comprehensive income. Refer to note 11.

1.3 Operating profit

	2022 R'000	2021 R'000
The following has been charged/(credited) in arriving at operating profit:		
Advertising and promotional expenses	57 968	46 284
Audit fees – services as auditors relating to the year-end audit	27 889	25 157
Audit fees – other	2 414	3 362
Consulting fees	92 839	107 418
Foreign exchange loss/(gain)	1 217	(7 091)
Foreign exchange loss on 2DFine and OSI loans	—	68 262
Impairment of inventory	4 205	2 995
Insurance	11 315	11 585
IT infrastructure costs and computer-related costs	55 737	60 822
Legal fees	9 283	7 373
Licence fees	49 196	44 127
Motor vehicle expenses	19 548	14 681
Profit on disposal of property, plant and equipment	(1 383)	(545)
Profit on disposal of joint venture*	—	(26 955)
Foreign currency translation reserve release on disposal of joint venture	—	(52 538)
Loss on disposal of joint venture	—	1 990
Travel – local and overseas	7 638	5 208
Receipt of contingent consideration	(45 823)	—
Professional fees and other costs related to the fraud recoupment	67 933	—
Fraud recoupment	(315 132)	—

* On 21 September 2020, the Group disposed of its 47.56% shareholding in Blue Label Mexico for R190.6 million to its co-shareholder, Grupo Bimbo S.A.B de C.V. The profit on disposal of R65.1 million is included in other income in the prior year. In line with Mexican taxation legislation, taxation of R38.1 million was payable on the proceeds of the disposal thereby reducing the profit on disposal to R27 million.

1. Results of operations continued

1.3 Operating profit continued Fraud recoupment

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

	Amounts collectable at 31 October 2021 R'000	Collected in cash R'000	Other movements R'000	Amounts collectable at 31 May 2022 R'000
Rights to:				
Immovable property	42 295 ¹	(11 354)	(30 941)	—
Loans made to third parties	62 772 ²	(3 524)	(8 292)	50 956
Unlisted shares	13 100 ³	—	(13 100)	—
Listed share portfolio	750 ⁴	(750)	—	—
Bank accounts	191 527 ⁵	(189 825)	—	1 702
Inventory	448	—	(448)	—
Other	4 240	(140)	(4 100)	—
Receivables	—	—	60 483	60 483
	315 132	(205 593)	3 602	113 141

¹ Rights to immovable property were accounted for as rights to receive non-current assets and were recognised initially at their fair value using comparable market prices. As it was not the intention of the Group to acquire legal title to the properties or to keep the rights for the long term, the Group actively marketed these properties and has sold them all. Accordingly, the rights to receive immovable property were classified as non-current assets held-for-sale. These rights were measured at the lower of the initial amount recognised and fair value less costs to sell. Since the perpetrators are required to bear the costs to sell, these were assumed to be zero for the Group's measurement purposes. All properties were sold by 31 May 2022, resulting in the derecognition of the related right and the recognition of a receivable for the sale proceeds which are expected to be received within the next 12 months where the transfer of title to the property has not yet taken place.

² The right to a loan made to a third party with a carrying amount of R49.5 million has been accounted for as a financial asset at fair value through profit or loss. Early prepayment features resulted in the underlying loan failing the requirements for amortised cost accounting. Refer to note 3.7. The rights to the remaining loans receivable have been measured at amortised cost.

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

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

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

Subsequent to year-end, R20.8 million of the balance remaining to be collected at 31 May 2022 was collected.

Professional fees incurred relating to the fraud recoupment amounted to R67.9 million to the end of May 2022, and have been included in other expenses.

As the fraudulent activities had a direct impact on the Group's operating cash flows, the realisation of the recoupment income is recognised in cash flows from operating activities in the cash flow statement.

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

Notes to the Group annual financial statements continued

for the year ended 31 May 2022

1. Results of operations continued

1.3 Operating profit continued

	2022 R'000	2021 R'000
Impairments and fair value movements comprise the following:		
Fair value (gain)/loss on surety receivable	(12 859)	21 116
Fair value gain on financial instruments	(50 387)	(28 911)
	(63 246)	(7 795)
Bad debts and expected credit loss, arising from the application of IFRS 9, comprise the following:		
Bad debts and expected credit loss on loans	(398)	6 181
Expected credit loss on 2DFine and OSI loans*	471	(67 991)
Remeasurement of financial guarantee contracts	(671)	(33 455)
Bad debts and expected credit losses on trade receivables, other receivables and advances to customers	328 359	83 365
	327 761	(11 900)
Included in other expenses, impairments and fair value movements, and bad debts and expected credit loss above are the following:		
Impairments, fair value and foreign exchange movements relating to Oxigen		
Expected credit loss on 2DFine loan*	471	(55 540)
Expected credit loss on OSI loan*	—	(12 451)
Foreign exchange loss on 2DFine loan	—	55 811
Foreign exchange loss on OSI loan	—	12 451
Fair value (gain)/loss on surety receivable	(12 859)	21 116
Foreign exchange gain and expected credit loss on financial guarantee contracts	(671)	(16 605)
	(13 059)	4 782
Impairments and fair value losses relating to Cell C		
Fair value gain on SPV2	—	(16 009)
	—	(16 009)

* These loans were fully provided for in 2019. The ECL movements on these loans in the prior year predominantly related to offsetting the forex movement recognised thereon in other expenses. In the current year these loans were written off in full.

1. Results of operations continued

1.4 Finance costs and finance income

Finance costs/income are recognised in profit or loss using the effective interest rate method as the instruments to which this relates are measured at amortised cost.

Where the core business of a Group subsidiary is providing finance to its customers, the interest earned from these customers is recognised as revenue and the related interest incurred is recognised in finance costs incurred in the generation of revenue in the income statement. In all other scenarios, interest is recognised as a finance income or finance expense below operating profit.

	2022 R'000	2021 R'000
Finance costs		
– Bank	183	288
– Loans and facilities	186 857	116 842
– Related-party loans (refer to note 8)	3	546
– Other	8 323	5 356
– Unwinding of lease liability	5 859	8 915
	201 225	131 947
Finance income		
– Bank	(70 392)	(51 308)
– Loans	(822)	(3 284)
– Related-party loans (refer to note 8)	(4 745)	(1 192)
– Other	(5 034)	(3 933)
	(80 993)	(59 717)
Net finance costs	120 232	72 230

1.5 Earnings per share

Core headline

Core headline earnings per share are calculated by adding back to headline earnings, the amortisation of intangible assets net of deferred taxation and non-controlling interests as a consequence of the purchase price allocations completed in terms of IFRS 3(R) – *Business Combinations*.

Use of adjusted measures

The measures listed below are presented as management believes it to be relevant to the understanding of the Group's financial performance. These measures are used for internal performance analysis and provide additional useful information on underlying trends to equity holders. These measures are not defined terms under IFRS and may therefore not be comparable with similarly titled measures reported by other entities. It is not intended to be a substitute for, or superior to, measures as required by IFRS.

Notes to the Group annual financial statements continued

for the year ended 31 May 2022

1. Results of operations continued

1.5 Earnings per share continued

(a) Headline earnings, earnings and core headline earnings per share

	Attributable earnings		Total	
	2022 R'000	2021 R'000	Cents per share 2022	2021
Headline earnings per share				
Basic	1 028 911	756 917	117.34	86.16
Diluted	1 028 911	756 917	114.34	83.26
Core	1 061 080	787 580	121.01	89.65
Earnings attributable to ordinary equity holders				
Basic	1 027 079	830 607	117.13	94.55
Diluted	1 027 079	830 607	114.14	91.36

(b) Weighted average number of shares

	2022 '000	2021 '000
Weighted average number of shares		
Weighted average number of ordinary shares	876 857	878 463
Adjusted for forfeitable shares	23 006	31 334
Weighted average number of ordinary shares for diluted earnings ¹	899 863	909 797

¹ The same weighted average number of shares for basic earnings per share is used for core headline earnings per share.

Continuing operations				Discontinued operations			
Attributable earnings		Cents per share		Attributable earnings		Cents per share	
2022 R'000	2021 R'000	2022	2021	2022 R'000	2021 R'000	2022	2021
1 028 911	731 936	117.34	83.32	—	24 981	—	2.84
1 028 911	731 936	114.34	80.51	—	24 981	—	2.75
1 061 080	762 599	121.01	86.81	—	24 981	—	2.84
1 027 079	805 286	117.13	91.67	—	25 321	—	2.88
1 027 079	805 286	114.14	88.57	—	25 321	—	2.79

Notes to the Group annual financial statements continued

for the year ended 31 May 2022

1. Results of operations continued

1.5 Earnings per share continued

(c) Analysis of headline earnings

	Total			
	Profit/(loss) before tax and non- controlling interest R'000	Tax R'000	Non- controlling interest R'000	Headline earnings R'000
2022				
Profit attributable to equity holders of the parent	1 412 259	(320 262)	(64 918)	1 027 079
Profit on disposal of property, plant and equipment	(1 383)	387	27	(969)
Profit on disposal of property, plant and equipment in joint venture	(32)	—	—	(32)
Impairment of property, plant and equipment	3 580	(1 003)	—	2 577
Remeasurement of non-current assets held-for-sale	157	(44)	(29)	84
Profit on disposal of intangible assets in joint venture	(270)	—	—	(270)
Dilution of holding in joint venture	545	—	(103)	442
Headline earnings				1 028 911
2021				
Profit attributable to equity holders of the parent	1 136 968	(258 952)	(47 409)	830 607
Profit on disposal of property, plant and equipment	(1 016)	284	—	(732)
Impairment of property, plant and equipment	5 559	(1 557)	—	4 002
Impairment of intangible assets	754	(211)	—	543
Profit on disposal of joint venture	(26 955)	—	—	(26 955)
Loss on disposal of joint venture	1 990	—	—	1 990
FCTR recycled on the disposal of investment in joint venture	(52 538)	—	—	(52 538)
Headline earnings				756 917

Continuing operations				Discontinued operations			
Profit/(loss) before tax and non- controlling interest R'000	Tax R'000	Non- controlling interest R'000	Headline earnings R'000	Profit/(loss) before tax and non- controlling interest R'000	Tax R'000	Non- controlling interest R'000	Headline earnings R'000
1 412 259	(320 262)	(64 918)	1 027 079	—	—	—	—
(1 383)	387	27	(969)	—	—	—	—
(32)	—	—	(32)	—	—	—	—
3 580	(1 003)	—	2 577	—	—	—	—
157	(44)	(29)	84	—	—	—	—
(270)	—	—	(270)	—	—	—	—
545	—	(103)	442	—	—	—	—
1 028 911							
1 102 111	(249 416)	(47 409)	805 286	34 857	(9 536)	—	25 321
(544)	152	—	(392)	(472)	132	—	(340)
5 559	(1 557)	—	4 002	—	—	—	—
754	(211)	—	543	—	—	—	—
(26 955)	—	—	(26 955)	—	—	—	—
1 990	—	—	1 990	—	—	—	—
(52 538)	—	—	(52 538)	—	—	—	—
731 936				24 981			

Notes to the Group annual financial statements continued

for the year ended 31 May 2022

1. Results of operations continued

1.5 Earnings per share continued

(d) Analysis of core headline earnings

	Total		Continuing operations		Discontinued operations	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000	2022 R'000	2021 R'000
Reconciliation between net profit for the period and core headline earnings for the period:						
Net profit for the period	1 027 079	830 607	1 027 079	805 286	—	25 321
Amortisation of intangibles raised through business combinations net of tax and non-controlling interest	32 169	30 663	32 169	30 663	—	—
Core net profit for the period	1 059 248	861 270	1 059 248	835 949	—	25 321
Headline earnings adjustments	1 832	(73 690)	1 832	(73 350)	—	(340)
Core headline earnings	1 061 080	787 580	1 061 080	762 599	—	24 981

1. Results of operations continued**1.6 Cash generated by operations**

	2022 R'000	2021 R'000
Reconciliation of operating profit including discontinued operations to cash generated by operating activities:		
Operating profit from:		
– Continuing operations	1 524 449	1 171 390
– Discontinued operations	—	34 858
Adjustments for:		
Depreciation of property, plant and equipment	64 703	67 071
Depreciation on leased assets	29 341	29 392
Amortisation of intangible assets	338 115	170 177
Fair value gain on financial instruments	(47 383)	(69 304)
Fair value loss on financial instruments	—	6 938
Fair value on contingent consideration	(45 823)	—
Impairment of property, plant and equipment	3 580	5 559
Impairment of intangible assets	—	754
Impairment of loans	73	8 851
Impairment of inventory	4 205	2 149
Impairment on leased assets	—	439
Brokerage income fee capitalised	(2 347)	—
Fraud recoupment of assets still to be collected	(113 141)	—
Fair value (gain)/loss on surety receivable	(12 859)	21 116
Lease modification income	(1 106)	(27 575)
Loss on dilution/disposal of joint venture	545	1 990
Profit on disposal of property, plant and equipment	(1 383)	(1 016)
Profit on disposal of joint venture	—	(65 066)
Financial guarantee release	(671)	—
Provision relating to the closure of WiConnect	—	(6 912)
Foreign currency translation reserve recycled on disposal of joint venture	—	(52 538)
Equity compensation benefit expense	32 278	27 823
Net unrealised forex profit	(364)	(9 113)
Changes in working capital (excluding the effects of acquisitions and disposals):		
Increase in inventories	(181 183)	(391 146)
(Increase)/decrease in trade and other receivables	(846 727)	172 395
Increase in trade and other payables	45 525	771 841
Decrease/(increase) in advances to customers	144 750	(130 214)
	934 577	1 739 859

Notes to the Group annual financial statements continued

for the year ended 31 May 2022

2. Group composition

Basis of consolidation

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group 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. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition by acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets. If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

Acquisition-related costs are expensed as incurred.

Any contingent consideration to be transferred is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability are recognised in profit or loss in other income or other expenses.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired are recorded as goodwill. If the total consideration transferred, non-controlling interest recognised and previously held interest measured are less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions, i.e. transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When entering into a written put on a non-controlling interest, the initial liability is recognised at the present value of the expected settlement price with a corresponding adjustment to equity. Thereafter if the non-controlling interest continues to be recognised, the Group takes subsequent changes in the expected changes in the liability as an adjustment in profit or loss. The Group believes this is an appropriate accounting policy, because there is no clear guidance in IFRS as to whether IFRS 9 or 10 should be applied to the presentation of the remeasurement of a liability.

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2. Group composition continued

Basis of consolidation continued

(d) Associates and joint ventures

Investments in associates and joint ventures are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates and joint ventures includes goodwill identified on acquisition. Loans made to associates and joint ventures that are equity in nature are treated as part of the cost of the investment made.

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures.

The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. The carrying amount of the investment is also adjusted for the Group's share of post-acquisition movements in other net assets.

The Group excludes equity-settled share-based payment charges from its share in profits or losses from associates and joint ventures. As a result, it does not recognise the corresponding attributable share of the related share-based payment reserve within equity.

The Group determines at each reporting date if there are any indicators which would require the Group to test whether the investment in the associate or joint venture is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognises the amount adjacent to share of profit/(loss) from associates in the income statement.

Dilution gains and losses arising in investments in associates and joint ventures are recognised in the income statement.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

When the Group's share of losses in an associate or joint venture equals or exceeds its interests in the associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate or joint venture. Where an impairment is recognised in respect of an associate or joint venture, the Group's share of equity-accounted results reflect amortisation based on an adjusted impaired fair value.

Critical accounting judgements and assumptions

(a) Valuation of intangible assets acquired as part of a business combination

The fair values of all identifiable intangible assets acquired as part of a business combination are determined using recognised valuation techniques. Such techniques often rely on forecasts of future cash flows and the use of appropriate discount rates that reflect the risk factors associated with the cash flows.

These valuations are based on information at the time of the acquisition and the expectations and assumptions that have been deemed reasonable by the Group's management. The risk exists that the underlying assumptions or events associated with such assets will not occur as projected. For these reasons, among others, the actual cash flows may vary from forecasts of future cash flows.

(b) Assessment of investment in associates and joint ventures for impairment

The Group tests annually whether investment in associates and joint ventures has suffered any impairment, in accordance with the accounting policy. The recoverable amounts of the investment in associates and joint ventures have been determined based on value-in-use calculations. These calculations require the use of estimates.

Notes to the Group annual financial statements continued

for the year ended 31 May 2022

2. Group composition continued

Critical accounting judgements and assumptions continued

(c) Classification of significant joint arrangements

The Group exercises judgement in determining the classification of its joint arrangements.

(d) Classification of significant associates

Cell C Limited

Blue Label Telecoms acting through its wholly owned subsidiary, The Prepaid Company Proprietary Limited, acquired a 45% interest in Cell C Limited. The Group will be entitled to appoint four of the 11 Directors to the Cell C Board, which will represent 36% of the overall votes of the Board. Based on the Group's shareholding and representation on the Board, management has assessed Cell C Limited to be an associate as the Group will have the power to participate in (but not control) the financial and operating policy decisions of Cell C Limited.

The arrangement between Cell C and Comm Equipment Company (CEC) as described in note 4.2, has not altered the decision making power of the Group over Cell C. Therefore the Group continues to account for Cell C as an associate.

(e) Going concern of Cell C

For purposes of the Group's annual financial statements, Cell C has been accounted for using the going concern assumption. Based on the following facts available, management is of the opinion that Cell C will continue as a going concern for the foreseeable future:

Cell C concluded the national roaming agreement on 7 August 2019, which became effective on 4 May 2020. This agreement is one of the key pillars in Cell C's transformation plan, as well as its long-term network strategy to optimise operating costs and reduce capital outlay as part of the turnaround strategy. This agreement is anticipated to positively impact the cost base and future cash flows on the successful implementation of this transaction.

The Board of Cell C established a liquidity committee to monitor the liquidity position of Cell C and to ensure that the business is not trading recklessly during the negotiations of the recapitalisation and debt restructure. Although the liquidity position of Cell C remains challenging, Cell C has proven that it has managed to continue trading despite the liquidity concerns and management is confident that this committee will manage the liquidity position of Cell C until the conclusion of the recapitalisation process.

Cell C appointed independent financial restructuring advisers to assist in stringent monitoring of the liquidity of Cell C, as well as designing the revised business plans that support the new operating business model. Stakeholders have appointed independent advisers to assist with the recapitalisation and/or debt restructuring process and formal engagements are ongoing.

A roaming agreement with Vodacom was concluded in November 2020 which is aligned to Cell C's revised network strategy, aimed at managing capacity in a more scalable and cost-efficient manner through a roaming model. Contract and broadband customers have been transitioned in stages to roam on the Vodacom network. The strategic vision is to differentiate Cell C by focusing on innovative products and services without being owners of capital intensive infrastructure. This creates more flexibility and capacity to deliver the right quality of service to our current and future customers.

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

On 4 August 2020, Cell C notified its noteholders that it defaulted on the payment of capital on its USD184 002 000 8.625% First Priority Senior Secured Notes which was due on 2 August 2020; as well as interest and capital repayments related to the respective bilateral loan facilities between Cell C and Nedbank Limited, China Development Bank Corporation, Development Bank of Southern Africa Limited and Industrial and Commercial Bank of China Limited, which were due in January and July 2020.

2. Group composition *continued*

Critical accounting judgements and assumptions *continued*

(e) Going concern of Cell C *continued*

Currently, none of the bilateral loan facilities have been accelerated as noteholders are aware and support that Cell C is committed to resolving the situation by agreeing to restructuring terms with its lenders while it also continues to work proactively with all stakeholders to improve its liquidity, debt profile and long-term competitiveness.

Management and the Directors have taken the default into consideration as part of their overall assessment of the going concern principle for Cell C and are of the view that the going concern assumption is still applicable. The default does not change any judgements or assumptions made in the financial assumptions that are dependent on the continued operation of Cell C as a going concern.

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

On 15 March 2022, Blue Label concluded a non-binding term sheet ("Umbrella Restructure Term Sheet") with Cell C and various Cell C financial stakeholders (including certain shareholders and creditors of Cell C). In terms of the Umbrella Restructure Term Sheet, Cell C will be restructured and refinanced (the "Proposed Transaction") with the purpose of deleveraging its balance sheet, providing it with liquidity with which to operate and grow its businesses and to position itself to achieve long-term success for the benefit of its customers, employees, creditors, shareholders and its other stakeholders. The Umbrella Restructure Term Sheet is non-binding, save for stand-still provisions and certain provisions of a general nature which are binding.

The salient terms of the Proposed Transaction are set out below:

Capital and debt restructure:

In order to facilitate the restructuring of Cell C's debt owing to certain secured lenders totalling c.R7.3 billion, with such amount being fixed as at November 2019, TPC shall loan to Cell C an amount required to affect a compromise offer to be made by Cell C to certain of its secured lenders of a maximum amount of up to R1.46 billion ("TPC Debt Funding"). It is anticipated that TPC's actual funding obligation in respect of the compromise offer will, however, amount to R1.03 billion.

The TPC Debt Funding will be provided by TPC to Cell C in the form of a secured loan. Cell C will utilise the TPC Debt Funding to settle the claims of secured lenders by paying an amount of 20c to the rand.

Certain secured lenders have indicated that they wish to remain invested in Cell C. These secured lenders will be entitled to loan an amount equal to the 20c received, back to Cell C under a new loan arrangement ("Reinvestment Instrument"). The Reinvestment Instrument, which will be interest bearing and secured, will have an aggregate capital face value equal to 2.75 times of the amount advanced. In addition, the participating lenders will be entitled to share pro-rata in a fresh issue of ordinary shares in Cell C at a nominal value. All shareholders of Cell C will dilute proportionately to enable the issuance of these ordinary shares to the participating lenders.

Simultaneously but separately with the issuance of the Reinvestment Instrument, Cell C will, pursuant to a rights issue at nominal value, allot and issue shares to TPC. Following such issue and various other issues of shares to be made by Cell C to third parties at nominal value pursuant to the Proposed Transaction, TPC will hold approximately 49.3% of the shares in Cell C, inclusive of those shares which TPC will be entitled to, pursuant to the Reinvestment Instrument.

In addition, CEC (a wholly owned subsidiary of TPC) will defer an amount of R1.1 billion owed by Cell C and some of its subsidiaries to it on the date of implementation of the Proposed Transaction ("the Effective Date"), which amount will be repaid in equal monthly instalments over 60 months reckoned from the Effective Date. The actual Effective Date shall be once all conditions precedent to the Proposed Transaction have been fulfilled or waived.

Notes to the Group annual financial statements *continued*

for the year ended 31 May 2022

2. Group composition *continued*

Critical accounting judgements and assumptions *continued*

(e) Going concern of Cell C *continued*

Liquidity requirements:

In order to further assist Cell C with its working capital requirements, TPC shall:

- purchase Cell C prepaid airtime for a purchase price of R1.2 billion (inclusive of VAT) on the Effective Date; and
- purchase, by way of four further quarterly payments of R300 million (inclusive of VAT), additional prepaid airtime, with each such quarterly payment payable at the beginning of each calendar quarter. The first such quarterly payment will be made at the beginning of the 13th month following the recapitalisation of Cell C and subsequent payments will be made at the commencement of each quarter thereafter.

Furthermore, in conjunction with other third parties, TPC shall undertake to purchase certain minimum levels of prepaid airtime from Cell C in accordance with an agreed monthly schedule or otherwise in accordance with market requirements.

The prepaid airtime to be acquired by TPC from Cell C pursuant to the above prepaid airtime transactions, forms part of the average monthly prepaid airtime acquisitions by TPC of Cell C prepaid airtime in the ordinary course of business.

TPC will raise c.R1.6 billion of the required funds from financial institutions, through an Airtime Purchase transaction, for the purpose of facilitating the Proposed Transaction, and will have an obligation to repurchase such airtime over a 24 month period in equal monthly instalments. The financial institutions have provided the requisite credit approvals in respect of the airtime purchase transaction, which are subject to the conclusion of all legal documentation and fulfilment of all conditions precedent under such legal documentation.

In addition to the conclusion of the Umbrella Restructure Term Sheet, the following transactions will be implemented and agreements in respect thereof have been concluded (conditional upon the Proposed Transaction) being unconditional (save for conditions related to such arrangements being unconditional or implemented) whereby TPC will acquire:

- from certain funders to Cell C their right to reinvest in the Reinvestment Instrument available to them for a purchase consideration of R1 from each such funder. Following such acquisition by TPC of such rights, TPC will invest an aggregate amount of R110 million into Cell C via the Reinvestment Instrument;
- debt notes in Cedar Cellular Investment 1 (RF) Proprietary Limited, a shareholder in Cell C, for a purchase consideration of USD500 000 and R16 million;
- a credit claim of USD6 million against Cell C for an amount of USD4 million, and which claim will then be subject to a compromise as between TPC and Cell C; and
- certain trade claims against Cell C, which claims shall be acquired for an aggregate amount of R16 million and USD4.5 million and which claims will then be subject to a compromise as between TPC and Cell C.

Subsequent events:

Certain of the Secured Lenders of Cell C, are holders of formerly publicly listed notes issued by Cell C described as USD184 002 000 8.625% First Priority Senior Secured Notes. Shareholders were notified of the convening of a meeting of the holders of the Notes ("Noteholders") for Noteholders to approve an extraordinary resolution which, among other things, will give effect to the compromising of the Noteholders' claims ("Compromise Offer").

In terms of the Compromise Offer, Cell C shall, inter alia, restructure its debt owing to certain secured lenders totalling c.R7.3 billion, with such amount being fixed as at November 2019, by compromising the secured lenders' claims by an offer of 20c to the rand.

The Noteholder meeting was held on 5 July 2022 and Noteholders with the requisite majority voted resolutions in favour of, among other things, the compromise offer as set out in Cell C's consent solicitation memorandum.

The binding long form agreements are expected to be completed in their entirety shortly. It is anticipated that the recapitalisation process, the completion of which has endured for longer than initially anticipated, is expected to close by mid-September 2022. Refer to note 3.7 for the probability applied by management in determining Cell C's liquidity and solvency and the impact of the application of this on the measurement of the derivative liability.

2. Group composition continued

2.1 Investments in and loans to associates and joint ventures

The Group holds the following investments in and loans to associates and joint ventures:

	Cost and share of reserves		Loans		Investments and loans	
	2022 R'000	2021 ¹ R'000	2022 R'000	2021 ¹ R'000	2022 R'000	2021 ¹ R'000
Other associates	53 536	41 258	4 067	—	57 603	41 258
Other joint ventures	22 611	14 344	44 536	22 763	67 147	37 107
	76 147	55 602	48 603	22 763	124 750	78 365
Disclosed as:						
– Non-current assets	76 147	55 602	22 745	7 394	98 892	62 996
– Current assets	—	—	25 858	15 369	25 858	15 369

Loans to associates and joint ventures

			Total loans		Current		Non-current	
	Effective shareholding	Interest rate	2022 R'000	2021 R'000	2022 R'000	2021 R'000	2022 R'000	2021 R'000
I Talk Holdings Proprietary Limited	40.50%	Linked to prime	18 678	1 934	—	1 934	18 678	—
I Talk Financial Services Proprietary Limited	30.38%	0%	7 259	7 394	7 259	—	—	7 394
T3 Telecoms SA Proprietary Limited	50%	0%	14 544	13 435	14 544	13 435	—	—
Wozza Airtime Proprietary Limited	50%	Prime + 2%	4 055	—	4 055	—	—	—
Blu Train Proprietary Limited ²	64.68%	Linked to prime	4 067	—	—	—	4 067	—
			48 603	22 763	25 858	15 369	22 745	7 394

¹ T3 Telecoms SA Proprietary Limited has been reclassified as a joint venture. The prior year figures have been restated for this. There is no further impact on the financial statements in this regard.

² The Group does not control Blue Train, as they do not control the Board of Directors.

The loans as at 31 May 2022 are neither past due nor impaired with a low risk of default. The carrying amount of the loans approximates their fair value.

The loans to I Talk Holdings and Blue Train are repayable on demand. All other loans are payable within 12 months.

Notes to the Group annual financial statements continued

for the year ended 31 May 2022

2. Group composition continued

2.1 Investments in and loans to associates and joint ventures continued

Company	Joint venture Blue Label Mexico S.A. de C.V. Distributor of terminals to vend e-tokens of value Mexico		Associate Cell C Limited Network provider South Africa	
Principal activity				
Country of incorporation				
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
Cost and share of reserves at the beginning of the year	—	138 234	—	—
Acquisition of associates and joint ventures	—	—	—	—
Share of (losses)/profits from associates and joint ventures	—	(6 554)	—	—
Share of results after tax	—	(6 554)	—	—
Amortisation of intangible assets	—	—	—	—
Deferred tax on intangible assets amortisation	—	—	—	—
Foreign currency translation reserve	—	(6 191)	—	—
Dividends received	—	—	—	—
Diluted	—	—	—	—
Disposed of	—	(125 489)	—	—
Cost and share of reserves at the end of the year	—	—	—	—
Loans to associates and joint ventures				
Loans at the beginning of the year	—	—	—	—
Loans granted to associates and joint ventures	—	—	—	—
Loans repaid by associates and joint ventures	—	—	—	—
Expected credit loss	—	—	—	—
Loans at the end of the year	—	—	—	—
Closing net book value	—	—	—	—
Share of (losses)/profits from associates and joint ventures	—	(6 554)	—	—

¹ T3 Telecoms SA Proprietary Limited has been reclassified as a joint venture. The prior year figures have been restated for this. There is no further impact on the financial statements in this regard.

* The Group also has interests in a number of individually immaterial associates and joint ventures that are accounted for using the equity method which are aggregated under "Other associates" and "Other joint ventures".

Other associates*

Other joint ventures*

Total

	2022 R'000	2021 ¹ R'000	2022 R'000	2021 ¹ R'000	2022 R'000	2021 R'000
	41 258	34 103	14 344	25 118	55 602	197 455
	17 682	5 500	—	—	17 682	5 500
	(770)	4 289	8 812	5 216	8 042	2 951
	325	5 443	8 812	5 216	9 137	4 105
	(1 521)	(1 602)	—	—	(1 521)	(1 602)
	426	448	—	—	426	448
	1 251	(2 634)	—	—	1 251	(8 825)
	(5 885)	—	—	(14 000)	(5 885)	(14 000)
	—	—	(545)	—	(545)	—
	—	—	—	(1 990)	—	(127 479)
	53 536	41 258	22 611	14 344	76 147	55 602
	—	—	22 763	9 488	22 763	9 488
	4 115	—	22 450	52 259	26 565	52 259
	—	—	(1 805)	(39 204)	(1 805)	(39 204)
	(48)	—	1 128	220	1 080	220
	4 067	—	44 536	22 763	48 603	22 763
	57 603	41 258	67 147	37 107	124 750	78 365
	(770)	4 289	8 812	5 216	8 042	2 951

Notes to the Group annual financial statements continued

for the year ended 31 May 2022

2. Group composition continued

2.1 Investments in and loans to associates and joint ventures continued

Company Principal activity Country of incorporation Financial year-end*	Associate Cell C Limited Mobile network South Africa 31 December	
	31 May 2022 R'000	31 May 2021 R'000
Statement of financial position		
Non-current assets	12 833 049	13 565 997
Current assets	5 305 662	6 228 984
	18 138 711	19 794 981
Total equity	(8 007 848)	(5 559 338)
Non-current liabilities	5 280 021	5 800 315
Current liabilities	20 866 538	19 554 004
	18 138 711	19 794 981
Effective percentage held	45	45
Net assets	(8 007 848)	(5 559 338)
Company net assets	(15 307 778)	(12 859 268)
Carrying value of purchase price allocations net of deferred taxation	7 299 930	7 299 930
Interest in associate and joint ventures	(3 603 532)	(2 501 702)
Goodwill	1 317 776	1 317 776
Accumulated impairment	(2 521 152)	(2 521 152)
Accumulated losses not guaranteed	4 806 908	3 705 078
Balance at the end of the year	—	—
	1 June 2021 to 31 May 2022 R'000	1 June 2020 to 31 May 2021 R'000
Financial year*		
Statement of comprehensive income for the year ended		
Revenue	13 302 733	13 954 861
Net (loss)/profit before taxation	(2 448 510)	2 363 748
Taxation	—	89 619
Net (loss)/profit after taxation	(2 448 510)	2 453 367
Other comprehensive (loss)/ income	—	—
Losses not guaranteed/(profits not recognised)**	2 448 510	(2 453 367)
Total comprehensive (loss)/income	—	—
Effective percentage held	45	45
Share of total comprehensive (loss)/income	—	—

* Where the financial year differs from the Group's year-end of 31 May, special purpose accounts are prepared to coincide with the Group's reporting period. These special purpose accounts are adjusted for the Group's equity-accounted adjustments.

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

2. Group composition continued

2.1 Investments in and loans to associates and joint ventures continued

Impairment of associates and joint ventures

The following investments were tested for impairment in line with IAS 36, by comparing the recoverable amount against the carrying value of the investments.

The recoverable amount is the higher of fair value less cost of disposal and the value-in-use. The value-in-use calculation applies cash flow projections based on financial budgets approved by the Board of Directors for the forthcoming year and forecasts for up to five years which are based on assumptions of the business, industry and economic growth. Cash flows beyond this period are extrapolated using terminal growth rates, which do not exceed the expected long-term economic growth rate.

Cell C Limited

The key assumptions used for the value-in-use calculations of Cell C Limited are as follows:

	2022			2021		
	Average EBITDA margin %	Terminal growth rate %	Discount rate %	Average EBITDA margin %	Terminal growth rate %	Discount rate %
Cell C Limited	15.6	4.0	16.3	19.9	4.0	18.8

A limited scope desktop valuation was performed in order to determine the value-in-use of Cell C based on cash flow projections incorporated in its five-year business plan. Assumptions relating to the business, the industry and economic growth were applied. Cash flows beyond this point were then extrapolated, applying terminal growth rates. The discount rates used are pre-tax and reflect specific risks related to Cell C. The valuation does not take into account the effects of any planned future restructuring or recapitalisation.

The Prepaid Company's equity share of the value as at 31 May 2022 remained at Rnil, however there was a decline in value compared to the prior year attributable to the following:

- (a) An increase in interest-bearing borrowings due to unfavourable exchange rate fluctuations and capitalised interest expense.
- (b) A decrease in cash flow generation over the forecast period.
- (c) A decrease in the assessed loss tax shield value due to delayed utilisation thereof.

The Group's remaining exposure to Cell C is as follows:

	2022 R'000	2021 R'000
Concentration of credit risk:		
Trade receivables	2 612 065	1 677 193
Loss allowance on trade receivables to Cell C	(26 717)	(4 220)
Payables due to Cell C:		
Trade payables	(851 473)	(456 902)

The Airtime Purchase transaction and the Umbrella Restructure Term Sheet referred to in note 2(e) are non-binding and do not create any unilateral obligation on the Group's behalf. There are no guarantees issued by the Group relating to any obligation of Cell C.

There is indirect exposure to Cell C as a result of the derivative liability. This results from the potential extinguishment of the derivative liability, linked to the solvency and liquidity of Cell C. Refer to note 3.7.

There is indirect exposure to Cell C as a result of the subscription sharing arrangement, refer to note 1.2 and 4.2.

Notes to the Group annual financial statements continued

for the year ended 31 May 2022

2. Group composition continued

2.1 Investments in and loans to associates and joint ventures continued

Financial guarantee in respect of Cell C's facility

On 2 August 2018, Cell C procured R1.4 billion of funding from a consortium of financial institutions for a tenure of 12 months, secured by airtime to the value of R1.75 billion. In the event of default, The Prepaid Company would be required to purchase such inventory from the consortium on a piecemeal basis over a specified period that was agreed upon. These purchases would be made in lieu of purchases that would have been made from Cell C within that period.

An extension was concluded on 31 May 2020 with an agreed quantum of airtime purchases required to be made by The Prepaid Company on a monthly basis. This would have resulted in the Cell C facility reducing to nil by 31 March 2021. However, as at 31 May 2021, the above funding had declined to R182 million, as a result of The Prepaid Company purchasing from the security airtime. This outstanding balance was paid by way of The Prepaid Company purchasing approximately R35 million per month from the security airtime, commencing June 2021. The facility has been settled at year-end.

2. Group composition continued

2.2 Non-controlling interests

Set out below is the summarised financial information relating to each subsidiary that has non-controlling interests that are material to the Group. The amounts disclosed for each subsidiary are before inter-company eliminations with other companies in the Group.

Subsidiary Principal place of business Segment	TJ Group ¹		Glocell Distribution Proprietary Limited ²		Blue Label Data Solutions		Cigicell Proprietary Limited ³	
	South Africa		South Africa		South Africa		South Africa	
	Africa Distribution		Africa Distribution		Solutions		Africa Distribution	
NCI (%)	2022 40 R'000	2021 40 R'000	2022 — R'000	2021 52 R'000	2022 19 R'000	2021 19 R'000	2022 26 R'000	2021 26 R'000
Non-current assets	16 733	23 653	—	31 041	52 358	22 803	49 113	12 263
Current assets	84 571	114 026	—	144 781	69 088	66 090	664 933	405 249
Total assets	101 304	137 679	—	175 822	121 446	88 893	714 046	417 512
Capital and reserves	74 778	108 623	—	(56 406)	72 944	56 802	196 005	34 588
Non-current liabilities	11 471	11 443	—	4 990	1 153	570	23	—
Current liabilities	15 055	17 613	—	227 238	47 349	31 521	518 018	382 924
Total equity and liabilities	101 304	137 679	—	175 822	121 446	88 893	714 046	417 512
Accumulated NCI⁴	31 530	43 449	—	(29 331)	13 859	10 792	51 215	8 545
Summarised statement of comprehensive income for the year ended 31 May								
Revenue	134 734	134 195	—	286 701	230 589	184 130	304 440	300 655
Total comprehensive income for the year	25 203	32 915	—	37 785	31 142	28 439	181 417	34 052
Comprehensive income allocated to NCI	10 081	13 166	—	19 648	5 917	5 403	47 869	8 868
Summarised cash flows for the year ended 31 May								
Cash flows generated from operating activities	34 845	53 919	—	26 961	16 171	26 302	54 210	35 312
Cash flows generated from/(utilised in) investing activities	3 225	(48 671)	—	(72 704)	9 256	910	(1 378)	(16 129)
Cash flows (utilised in)/from financing activities	(56 173)	(17 441)	—	(1 294)	13 488	(39 882)	(64 507)	4 292
Net (decrease)/increase in cash and cash equivalents	(18 103)	(12 193)	—	(47 037)	38 915	(12 670)	(11 675)	23 475
Dividends paid to NCI	22 000	8 000	—	36 346	2 850	7 600	5 200	5 200

¹ The TJ Group consists of Transaction Junction Proprietary Limited and Transaction Junction (Namibia) Proprietary Limited.

² In the prior year, management applied its judgement in concluding that The Prepaid Company Proprietary Limited (TPC), a wholly owned subsidiary of Blue Label Telecoms Limited, had control of Glocell due to the fact that TPC controls all distributions made by Glocell to its shareholders, the application of all free cash, the incurrance of any debt by Glocell other than in the ordinary course of its business, the sale of any of Glocell's assets and any loans granted by Glocell. In the current year, the remaining 52% holding in Glocell was purchased by TPC. The revenue generated up until the date of sale is immaterial. Refer to note 6.2.

³ Cigicell Proprietary Limited includes its subsidiary, Visual Revenue Management Proprietary Limited (VRM).

⁴ Accumulated NCI excludes the share-based payment reserve adjustments because the awards are treated as cash-settled in the separate entities' financial statements.

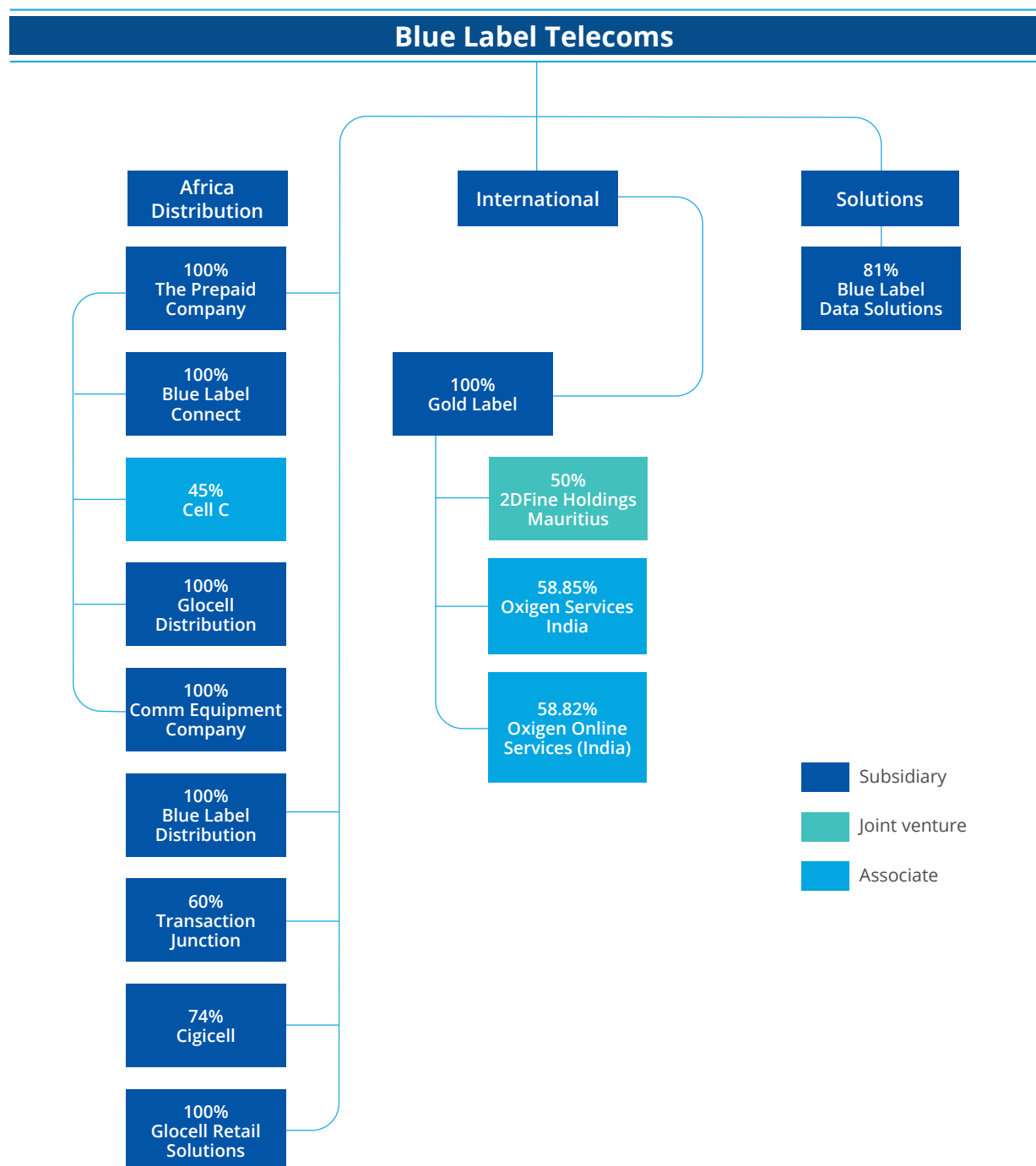
Notes to the Group annual financial statements continued

for the year ended 31 May 2022

2. Group composition continued

2.3 Interest in subsidiaries, associates and joint ventures

Blue Label Telecoms Limited conducts its operations through various wholly owned subsidiaries, associates and joint ventures, the principal activities of the Group are conducted through the following significant entities to the Group:



A full list of the subsidiaries, associates and joint ventures to the Group is available, upon request, at the registered offices of the Group.

3. Financial risk management and financial instruments

Financial instruments carried on the statement of financial position include:

Financial assets

- Loans receivable
- Loans receivable from associates and joint ventures
- Trade and other receivables
- Advances to customers
- Cash and cash equivalents
- Financial assets at fair value through profit or loss
- Financial assets at fair value through other comprehensive income

Financial liabilities

- Borrowings
- Trade and other payables
- Deferred revenue
- Lease liabilities
- Contingent purchase consideration
- Financial guarantee contracts
- Financial liabilities at fair value through profit or loss

Financial assets and liabilities are recognised when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are classified as current if expected to be realised within 12 months of the statement of financial position date; if not, they are classified as non-current. Financial liabilities are classified as non-current if the Group has the right to defer settlement beyond 12 months of the statement of financial position date.

The Group classifies financial assets on initial recognition as measured at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL) on the basis of the Group's business model for managing the financial asset and the cash flow characteristics of the financial asset.

Financial assets are classified as follows:

Measurement category	Criteria
Amortised cost	The asset is held within a business model with the objective to collect the contractual cash flows, and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.
Fair value through profit or loss	Debt investments that do not qualify for measurement at amortised cost or fair value through other comprehensive income and equity investments that are held-for-trading.
Fair value through other comprehensive income	Derivatives that the Group designates as hedging instruments in respect of foreign currency risk and interest rate risk in fair value hedges, cash flow hedges, or hedges of net investments in foreign operations, which meet the hedging criteria.

Financial assets are not reclassified unless the Group changes its business model for managing those financial assets. In rare circumstances where the Group does change its business model, reclassifications are done prospectively from the date that the Group changes its business model.

Financial liabilities are classified as measured at amortised cost except for those derivative liabilities that are measured at fair value through profit or loss.

Measurement on initial recognition

All financial assets (unless it is a trade receivable without a significant financing component) and liabilities are initially measured at fair value, including transaction costs, except for those classified as fair value through profit or loss which are initially measured at fair value excluding transaction costs. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss. A trade receivable without a significant financing component is initially recognised at the transaction price.

Notes to the Group annual financial statements continued

for the year ended 31 May 2022

3. Financial risk management and financial instruments continued

Subsequent measurement

Subsequent to initial recognition, financial instruments are measured as described below:

Category	Subsequent measurement
Financial assets	
Amortised cost	These financial assets are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Interest income, foreign exchange gains and losses and impairments are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss. Where the amortised cost using the effective interest method is materially lower than the fair value, this is separately disclosed.
Fair value through profit or loss	These financial assets are subsequently measured at fair value and changes therein (including any interest or dividend income) are recognised in profit or loss.
Fair value through other comprehensive income	The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges are recognised in other comprehensive income. The gain or loss relating to the ineffective portion are recognised immediately in profit or loss, and are included in finance costs.
Financial liabilities	
Amortised cost	These financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expenses and foreign exchange gains and losses are recognised in profit or loss. Where the amortised cost using the effective interest method is materially more than the fair value, this is separately disclosed.
Fair value through profit or loss	These financial liabilities are subsequently measured at fair value with changes therein recognised in profit or loss.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when the obligations specified in the contracts are discharged, cancelled or expire. On derecognition of a financial asset/liability, any difference between the carrying amount extinguished and the consideration paid is recognised in profit or loss.

Impairment

Under IFRS 9, the Group calculates its allowance for credit losses as expected credit losses (ECLs) for financial assets measured at amortised cost. ECLs are a probability weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the original effective interest rate (EIR) of the financial asset.

In order to calculate ECLs, the Group aggregates trade receivables by customer type, as disclosed in the trade and other receivables note (note 3.5.2). The Group applies the simplified approach to determine the ECL for trade and other receivables. This results in calculating lifetime ECLs for trade and other receivables. ECLs for trade and other receivables are calculated using a provision matrix. Refer to the credit risk note (note 3.1) for more detail about ECLs and how this is calculated.

ECLs for receivables other than trade receivables have been determined using the general approach in IFRS 9. Under the general approach, an entity calculates ECLs for loans and receivables at initial recognition by considering the consequences and probabilities of possible defaults only for the next 12 months, rather than the life of the asset. It continues to apply this method until a significant increase in credit risk has occurred, at which point the loss allowance is measured based on lifetime ECLs.

3. Financial risk management and financial instruments continued

Financial risk management

In the course of its business, the Group is exposed to a number of financial risks, namely credit risk, liquidity risk and market risk (including foreign currency, interest rate and other price risks). This note presents the Group's objectives, policies and processes for managing its financial risk and capital.

Risk management is monitored and managed by key personnel of each entity in the Group on a daily basis, based on their specific operational requirements.

Classes of financial instruments

	2022 R'000	2021 R'000
Financial assets		
Trade and other receivables*	4 160 316	3 287 121
Cash and cash equivalents	2 723 591	2 417 325
Loans to associates and joint ventures (refer to note 2.1)	48 603	22 763
Loans receivable	81 714	69 804
Advances to customers	1 667 538	1 812 288
Financial assets at fair value through profit or loss	147 301	219 139
Financial assets at fair value through other comprehensive income	20 224	6 915
	8 849 287	7 835 355
Financial liabilities		
Interest-bearing borrowings	2 567 752	1 706 163
Non-interest-bearing borrowings	719	989
Trade and other payables*	5 916 686	5 869 710
Lease liability	46 882	73 125
Derivative liability	22 000	68 178
Other financial liabilities at fair value through profit or loss	200	564
Financial guarantee contracts	—	105 621
Bank overdraft	63	118
	8 554 302	7 824 468
Net financial position	294 985	10 887

* Trade and other receivables and trade and other payables exclude non-financial instruments.

Reconciliation of financial assets and non-financial assets

	2022			2021		
	Total R'000	Financial asset R'000	Non- financial asset R'000	Total R'000	Financial asset R'000	Non- financial asset R'000
Loans receivable	81 714	81 714	—	69 804	69 804	—
Trade and other receivables	4 743 338	4 160 316	583 022	3 752 019	3 287 121	464 898
Advances to customers	1 667 538	1 667 538	—	1 812 288	1 812 288	—
Cash and cash equivalents	2 723 591	2 723 591	—	2 417 325	2 417 325	—
Financial assets at fair value through profit or loss	147 301	147 301	—	219 139	219 139	—
Financial assets at fair value through other comprehensive income	20 224	20 224	—	6 915	6 915	—
Loans to associates and joint ventures	48 603	48 603	—	22 763	22 763	—
	9 432 309	8 849 287	583 022	8 300 253	7 835 355	464 898

Notes to the Group annual financial statements continued

for the year ended 31 May 2022

3. Financial risk management and financial instruments continued

Reconciliation of financial liabilities and non-financial liabilities

	2022			2021		
	Total R'000	Financial liability R'000	Non- financial liability R'000	Total R'000	Financial liability R'000	Non- financial liability R'000
Interest-bearing borrowings	2 567 752	2 567 752	—	1 706 163	1 706 163	—
Non-interest-bearing borrowings	719	719	—	989	989	—
Trade and other payables	6 069 027	5 916 686	152 341	6 052 849	5 869 710	183 139
Lease liability	46 882	46 882	—	73 125	73 125	—
Derivative liability	22 000	22 000	—	68 178	68 178	—
Liquidity support	—	—	—	—	—	—
Other financial liabilities at fair value through profit or loss	200	200	—	564	564	—
Financial guarantee contracts	—	—	—	105 621	105 621	—
Bank overdraft	63	63	—	118	118	—
	8 706 643	8 554 302	152 341	8 007 607	7 824 468	183 139

3.1 Credit risk

Credit risk, or the risk of financial loss to the Group due to customers or counterparties not meeting their contractual obligations, is managed through the application of credit approvals, limits and monitoring procedures. The Group is exposed to credit risk on financial assets mainly in respect of those assets detailed in the table below. The carrying amounts of financial assets represent the maximum credit exposure. This exposure is considered, without taking into account any collateral and financial guarantees, to be as follows:

	2022 R'000	2021 R'000
Financial assets		
Trade and other receivables	4 160 316	3 287 121
Cash and cash equivalents	2 723 591	2 417 325
Loans to associates and joint ventures	48 603	22 763
Loans receivable	81 714	69 804
Advances to customers	1 667 538	1 812 288
	8 681 762	7 609 301

The Group's maximum credit risk exposure is the carrying amount of the above financial assets included on the statement of financial position.

3. Financial risk management and financial instruments *continued*

3.1 Credit risk *continued*

The table below discloses the credit quality of the financial assets (excluding trade receivables) of the Group for which external credit ratings are available. External credit ratings were based on the latest Moody's default ratings. The counterparties were categorised as follows:

Group 1: Financial institutions with a Moody's long-term debt issuer rating of Ba2 or better, or cash on hand. Insignificant ECL;

Group 2: Fully performing, with a Moody's rating of Ba2 or better;

Group 3: Fully performing, with a Moody's rating of between Ba3 and Caa2; and

Group 4: Counterparties who are considered to be in default and those that have a Moody's rating of Caa3 or lower.

The groupings above, as referenced throughout this note, are generally aligned to the staging requirements of IFRS 9 as follows:

- Group 1 financial assets are typically Stage 1.
- Group 2 financial assets are typically Stage 1, with minor Stage 2 balances.
- Group 3 financial assets are typically Stage 2, with minor Stage 1 balances.
- Group 4 financial assets are typically Stage 3.

	2022 R'000	2021 R'000
Counterparties with external credit rating		
Group 1	2 723 591	2 417 325
Total	2 723 591	2 417 325

The table below discloses the credit quality of the financial assets (excluding trade receivables) of the Group for which no external credit ratings are available. Equivalent credit ratings were based on the latest Moody's default ratings. These ratings include forward looking adjustments for all relevant economic factors, including the impact of Covid-19 for the prior period. Management defines default as when counterparties miss payments and future payments are either suspended or unlikely. Management writes off debtors where they have actively pursued the debt and there is no indication of recovery.

The counterparties were categorised as follows:

Group 1: Fully performing counterparties with no external credit ratings. ECL range up to 7.63% (2021: Up to 6.43%);

Group 2: Fully performing counterparties, with a credit rating equivalent to a Moody's rating of B1 or better. ECL range of 7.63% to 9.26% (2021: 6.43% to 7.57%);

Group 3: Fully performing counterparties, with a credit rating equivalent to a Moody's rating of between B2 and Caa2. ECL range of 9.26% to 54.0% (2021: 7.57% to 53.4%); and

Group 4: Counterparties who are considered to be in default and have an equivalent Moody's rating of Ca or lower. ECL of 54.0% to 100% (2021: 53.4% to 100%).

	2022 R'000	2021 R'000
Counterparties without external credit rating		
Group 1	112 066	843 734
Group 2	23 989	972 425
Group 3	1 660 827	88 696
Total	1 796 882	1 904 855

Notes to the Group annual financial statements continued

for the year ended 31 May 2022

3. Financial risk management and financial instruments continued

3.1 Credit risk continued

Impact of Covid-19 and other current economic events

The impact of Covid-19 on the ECLs recognised in the current and prior financial years has been considered across all financial assets exposed to counterparty credit risk. Covid-19 resulted in the Group initially accounting for general increases in allowances for ECLs, with recoveries in the current and prior financial years due to a more stable economic outlook, as well as efforts to clean up long outstanding receivables.

ECLs were determined by the Group based on an unbiased, probability weighted amount that is determined by evaluating a range of possible outcomes and, where relevant, reflecting the time value of money. In accordance with the requirements of IFRS 9, ECL allowances are required to be measured in a way that incorporates information available at the reporting date about past events, current conditions and forecasts of future economic conditions. Each of these were used in calculating the ECL on the in-scope financial assets of the Group. Moody's Analytics is used to incorporate forward looking information in the determination of ECL. Moody's consider the effect of Covid-19 to be embedded in the underlying actual results of entities, and as a result reflected in the probability of default (PD) assumption of underlying ECL methodologies. As such, no significant Covid-19 overlays or other adjustments, other than the macro-economic forecasts have been included in the current financial year.

Moody's Analytics produces a set of macro-economic forecasts for South Africa that considers the historical accuracy of various forecasters to identify reliable sources. These are incorporated into their GCorr macro-economic forecast set. Based on research conducted by Moody's Analytics, it recommends the use of its Baseline, Stronger Near-Term Rebound (S1), and Moderate Recession (S3) forecast sets weighted 40%, 30% and 30% (2021: 40%: 30%: 30%) respectively for a forward looking adjustment for the purposes of IFRS 9. It considers both public and private South African company defaults in this research. The methodology considers the industry of the asset and the related volatility in comparison to the average volatility in the South African economy.

The advent of Covid-19 had a fundamental impact on the economy in general with an exaggerated impact on credit risk, however in the subsequent financial years, these impacts have normalised. Moody's Analytics continually update their forecasts to reflect these changing risk factors by taking into account the possible spread of the epidemic through the country, the economic impact of the epidemic including measures taken to prevent its spread and measures taken by government to ameliorate the economic impact. Moody's recommend to continue applying the Baseline, S1 and S3 GCorr scenarios weighted 40%, 30% and 30% (these scenarios have been adjusted to reflect the change in risk). We calculated the 2022 financial year ECL scenarios based on a GCorr weighting of 40%, 30% and 30%, consistent with the prior year.

Expected credit losses

The Group has the following financial assets subject to the expected credit loss model:

- trade and other receivables;
- cash and cash equivalents;
- loans to associates and joint ventures;
- loans receivable; and
- advances to customers.

The Group applies the simplified approach using a provision matrix (refer below) to determine the ECL for trade and other receivables, and advances to customers. This results in calculating lifetime ECLs for these classes of financial instruments.

Loans to associates and joint ventures, as well as loans receivable, are amounts receivable to which the Group has applied the general impairment model. The Group has considered the financial performance, external debt and future cash flows of the related parties and, based on these, determined the credit risk relating to these receivables.

The Group tracks significant increases in credit risk using information available to the Group regarding the counterparty credit risk. Furthermore, this is supplemented by taking into account the performance of the counterparty to the financial asset in question, as well as data from Moody's Analytics where applicable. Significant increases in credit risk can be evaluated with reference to movements in the balances between the grouping categories used throughout this note.

3. Financial risk management and financial instruments *continued*

3.1 Credit risk *continued*

Expected credit losses *continued*

ECLs for receivables, other than trade receivables and advances to customers, have been determined using the general approach in IFRS 9. Under the general approach, an entity calculates ECLs for loans and receivables at initial recognition by considering the consequences and probabilities of possible defaults only for the next 12 months, rather than the life of the asset. It continues to apply this method until a significant increase in credit risk has occurred, at which point the loss allowance is measured based on lifetime ECLs.

The Group has applied the requirements of the general approach of IFRS 9 for counterparties where no external credit ratings are available, by way of the use of a management determined credit risk rating model. The management of the Group performs a rigorous internal rating assessment process of all external counterparty credit risk exposures and rate these exposures grouping them into the below four groups which are then aligned to equivalent Moody's sourced default ratings.

Management defines default as when counterparties miss payments and future payments are either suspended or unlikely.

- Group 1: Fully performing counterparties with no external credit ratings. ECL range up to 7.63% (2021: Up to 6.43%).
- Group 2: Fully performing counterparties with a credit rating equivalent to a Moody's rating of B1 or better. ECL range of 7.63% to 9.26% (2021: 6.43% to 7.57%).
- Group 3: Fully performing counterparties with a credit rating equivalent to a Moody's rating of between B2 and Caa2. ECL range of 9.26% to 54.0% (2021: 7.57% to 53.4%).
- Group 4: Counterparties who are considered to be in default and have an equivalent Moody's rating of Ca or lower. ECL of 54.0% to 100% (2021: 53.4% to 100%).

(i) Trade and other receivables

The Group has a diversified customer base and policies are in place to ensure sales are made to customers with an appropriate credit history and payment history. All of the Group's revenues are generated in South Africa. Individual credit limits are set for each customer and the utilisation of these credit limits is monitored regularly. Customers cannot exceed their set credit limit without specific Senior Management approval. Such approval is assessed and granted on a case by case basis. Management regularly reviews the receivables age analysis and follows up on long-outstanding receivables. Allowances for impairment are raised in accordance with Group policy, which aligns to the requirements of IFRS 9. The Group's customer base has been aggregated into groupings that represent, to a large degree, how the Group manages its receivables and also illustrates the spread of credit risk. Within these aggregated groupings, the Group's exposure to credit risk is made up of banks (and other financial institutions), major retailers, independent and informal retail customers, petroleum forecourts, municipalities, private utilities and cellular networks. The balance of the customer base is widely dispersed.

Provision matrix (including advances to customers)

ECLs are calculated by applying a loss ratio to the aged balance of receivables at each reporting date. The loss ratio is calculated according to the ageing/payment profile of sales by applying historic/proxy write-offs to the payment profile of the sales population. In instances where there was no evidence of historical write-offs, management used a proxy write-off for similar receivables obtained from external credit rating agencies. Receivable balances have been grouped so that the ECL calculation is performed on groups of receivables with similar risk characteristics and ability to pay. Exposures are mainly segmented by customer type, i.e. banks (and other financial institutions), major retailers, independent and informal retail customers, petroleum forecourts, municipalities, private utilities and cellular networks. This is done to allow for risk differentiation. Similarly, the sales population selected to determine the ageing/payment profile of the sales is representative of the entire population and in line with future payment expectations. The historic loss ratio is then adjusted for forward looking information to determine the ECL for the portfolio of receivables at the reporting date to the extent that there is a strong correlation between the forward looking information and the ECL.

In prior years, in most instances, no material adjustments were required to accommodate forward looking information, as the majority of receivables were settled within a relatively short period (under 60 days on average). Due to the uncertainty relating to the impact of Covid-19, however, forward looking adjustments were made.

Notes to the Group annual financial statements **continued**

for the year ended 31 May 2022

3. Financial risk management and financial instruments **continued**

3.1 Credit risk **continued**

*(i) Trade and other receivables **continued***

*Provision matrix (including advances to customers) **continued***

In the current year, Moody's consider the effect of Covid-19 to be embedded in the underlying actual results of entities, and as a result reflected in the probability of default (PD) assumption of underlying ECL methodologies. As such, no significant Covid-19 overlays or other adjustments, other than the macro-economic forecasts have been included. Refer to 'Impact of Covid-19 and other current economic events' paragraph above.

The Group used 60 to 72 months' sales data to determine the payment profile of the sales. Where the Group has information about actual historical write-offs, actual write-offs have been used to determine a historic loss ratio. Alternatively, management has used a proxy write-off, based on management's best estimate including information obtained from an external ratings agency (Moody's). The Group has considered quantitative forward looking information such as the core inflation rate. Qualitative assessments have also been performed, of which the impact was found to be immaterial, except for the impact of Covid-19, as noted above.

Management considers trade receivables aged in excess of 90 days past due (where the excessive ageing is not caused by administrative delays that are within the control of the Group), and those handed over to the Group's attorneys for legal collection processes, to be in default and accordingly increases the allowance for impairment raised on these receivables. This policy is applied to all receivables, other than receivables for starter packs, municipalities, private utilities or specific circumstances where management has rebutted the presumption that a customer is in default when 90 days past due as a result of the inherent nature of the product/transaction being undertaken which follows a business cycle in excess thereof. Receivables for starter packs are considered to be in default where no income has been earned from activation or ongoing revenue in the last three months and the receivable has aged in excess of the anticipated repayment cycle. Receivables from municipalities and private utilities are considered to be in default where the net exposure to the counterparty after deduction of the collateral held has aged in excess of 12 months, or where handed over to the Group's attorneys for legal collection purposes.

Trade receivables are written off when there is no reasonable expectation of recovery. This is assessed individually by each operation and includes, for example, where the trade receivables have been handed over for collection and remain outstanding or the debtor has entered bankruptcy. Other receivables and other financial assets are individually assessed by management based on each situation's unique facts and circumstances and are written off when management believes that there is no reasonable expectation of recovery.

3. Financial risk management and financial instruments continued

3.1 Credit risk continued

(i) Trade and other receivables continued

The loss allowance as at 31 May 2022 for trade receivables and other receivables to which the provision matrix has been applied is determined as follows:

Ageing and impairment analysis

	Gross R'000	Impairment R'000	Net R'000	Average ECL/ impairment ratio %
31 May 2022				
Fully performing receivables				
<i>Trade receivables arising on revenue from contracts with customers</i>				
Banks and other financial institutions	78 751	(9)	78 742	(0.01)
Independent and informal retail customers	526 889	(1 887)	525 002	(0.36)
Formal market retail customers	152 472	(550)	151 922	(0.36)
Customers in the petroleum sector	68 655	(20)	68 635	(0.03)
Receivables for starter packs	51 549	(72)	51 477	(0.14)
Cell C	3 782	(14)	3 768	(0.37)
Other cellular networks	65 844	(3)	65 841	(0.00)
Municipalities and private utilities	86 419	—	86 419	—
<i>Trade receivables arising on financing transactions</i>				
Cell C	2 557 395	(26 595)	2 530 800	(1.04)
Other	14 389	(59)	14 330	(0.41)
<i>Sundry receivables</i>	193 414	(870)	192 544	(0.45)
<i>Receivables from revenue recognised on fixed term contracts</i>	134 036	—	134 036	—
Past due receivables				
<i>Trade receivables arising on revenue from contracts with customers</i>				
Banks and other financial institutions				
Past due by 1 to 30 days	445	—	445	—
Past due by 31 to 60 days	13	—	13	—
Past due by 61 to 90 days	—	—	—	—
Past due by more than 90 days	5 726	(5 726)	—	(100.00)
Independents and informal retail customers				
Past due by 1 to 30 days	75 990	(148)	75 842	(0.19)
Past due by 31 to 60 days	4 892	(133)	4 759	(2.72)
Past due by 61 to 90 days	1 553	(130)	1 423	(8.37)
Past due by more than 90 days	18 584	(18 584)	—	(100.00)

Notes to the Group annual financial statements continued

for the year ended 31 May 2022

3. Financial risk management and financial instruments continued

3.1 Credit risk continued

(i) Trade and other receivables continued

Ageing and impairment analysis continued

	Gross R'000	Impairment R'000	Net R'000	Average ECL/ impairment ratio %
Formal market retail customers				
Past due by 1 to 30 days	140	—	140	—
Past due by 31 to 60 days	—	—	—	—
Past due by 61 to 90 days	3	(1)	2	(33.33)
Past due by more than 90 days	5 609	(5 609)	—	(100.00)
Customers in the petroleum sector				
Past due by 1 to 30 days	1 249	—	1 249	—
Past due by 31 to 60 days	70	—	70	—
Past due by 61 to 90 days	16	—	16	—
Past due by more than 90 days	3 548	(3 548)	—	(100.00)
Receivables for starter packs				
Past due by 1 to 30 days	21 297	(201)	21 096	(0.94)
Past due by 31 to 60 days	1 171	(4)	1 167	(0.34)
Past due by 61 to 90 days	1	—	1	—
Past due by more than 90 days	67	(67)	—	(100.00)
Cell C				
Past due by 1 to 30 days	2 794	(25)	2 769	(0.89)
Past due by 31 to 60 days	929	(8)	921	(0.86)
Past due by 61 to 90 days	—	—	—	—
Past due by more than 90 days	75	(75)	—	(100.00)
Other cellular networks				
Past due by 1 to 30 days	56 764	—	56 764	—
Past due by 31 to 60 days	—	—	—	—
Past due by 61 to 90 days	—	—	—	—
Past due by more than 90 days	—	—	—	—
Municipalities and private utilities				
Past due by 1 to 30 days	28 536	—	28 536	—
Past due by 31 to 60 days	10 656	—	10 656	—
Past due by 61 to 90 days	6 736	—	6 736	—
Past due by more than 90 days	47 070	(2 875)	44 195	(6.11)
	4 227 529	(67 213)	4 160 316	(1.59)

3. Financial risk management and financial instruments *continued*

3.1 Credit risk *continued*

(i) Trade and other receivables *continued*

Ageing and impairment analysis *continued*

	Gross R'000	Impairment R'000	Net R'000	Average ECL/ impairment ratio %
31 May 2021				
Fully performing receivables				
<i>Trade receivables arising on revenue from contracts with customers</i>				
Banks and other financial institutions	102 231	(114)	102 117	(0.11)
Independent and informal retail customers	577 731	(5 003)	572 728	(0.87)
Formal market retail customers	236 508	(2 720)	233 788	(1.15)
Customers in the petroleum sector	70 363	(125)	70 238	(0.18)
Receivables for starter packs	38 847	(287)	38 560	(0.74)
Cell C	14 154	(9)	14 145	(0.06)
Other cellular networks	46 685	(35)	46 650	(0.07)
Municipalities and private utilities	52 995	—	52 995	—
<i>Trade receivables arising on financing transactions</i>				
Cell C	1 660 864	(4 179)	1 656 685	(0.25)
Other	22 537	(710)	21 827	(3.15)
<i>Sundry receivables</i>	197 609	(1 547)	196 062	(0.78)
<i>Receivables from revenue recognised on fixed term contracts</i>	54 516	—	54 516	—
Past due receivables				
<i>Trade receivables arising on revenue from contracts with customers</i>				
Banks and other financial institutions				
Past due by 1 to 30 days	—	—	—	—
Past due by 31 to 60 days	11	—	11	—
Past due by 61 to 90 days	—	—	—	—
Past due by more than 90 days	—	—	—	—
Independents and informal retail customers				
Past due by 1 to 30 days	9 929	(320)	9 609	(3.22)
Past due by 31 to 60 days	1 883	(257)	1 626	(13.65)
Past due by 61 to 90 days	1 713	(160)	1 553	(9.34)
Past due by more than 90 days	57 135	(30 971)	26 164	(54.21)
Formal market retail customers				
Past due by 1 to 30 days	527	(27)	500	(5.12)
Past due by 31 to 60 days	4 579	(13)	4 566	(0.28)
Past due by 61 to 90 days	59	(6)	53	(10.17)
Past due by more than 90 days	2 522	(2 522)	—	(100.00)

Notes to the Group annual financial statements continued

for the year ended 31 May 2022

3. Financial risk management and financial instruments continued

3.1 Credit risk continued

(i) Trade and other receivables continued

Ageing and impairment analysis continued

	Gross R'000	Impairment R'000	Net R'000	Average ECL/ impairment ratio %
Customers in the petroleum sector				
Past due by 1 to 30 days	1	—	1	—
Past due by 31 to 60 days	2	—	2	—
Past due by 61 to 90 days	117	(3)	114	(2.56)
Past due by more than 90 days	4 439	(4 439)	—	(100.00)
Receivables for starter packs				
Past due by 1 to 30 days	41 842	(446)	41 396	(1.07)
Past due by 31 to 60 days	46 149	(494)	45 655	(1.07)
Past due by 61 to 90 days	2	(1)	1	(50.00)
Past due by more than 90 days	126	(126)	—	(100.00)
Cell C				
Past due by 1 to 30 days	1 042	(11)	1 031	(1.06)
Past due by 31 to 60 days	575	(9)	566	(1.57)
Past due by 61 to 90 days	558	(12)	546	(2.15)
Past due by more than 90 days	—	—	—	—
Other cellular networks				
Past due by 1 to 30 days	24 174	(37)	24 137	(0.15)
Past due by 31 to 60 days	2 014	(5)	2 009	(0.25)
Past due by 61 to 90 days	—	—	—	—
Past due by more than 90 days	4	(4)	—	(100.00)
Municipalities and private utilities				
Past due by 1 to 30 days	33 377	—	33 377	—
Past due by 31 to 60 days	10 720	—	10 720	—
Past due by 61 to 90 days	8 892	—	8 892	—
Past due by more than 90 days	21 855	(1 727)	20 128	(7.90)
	3 349 287	(56 319)	3 292 968	(1.68)

(ii) Cash and cash equivalents

The Group places cash and cash equivalents with major banking groups and quality institutions that have high credit ratings. The Group has the majority of its credit risk with Investec Bank Limited in line with its treasury function. Investec Bank Limited has a credit rating of Ba2 based on the latest Moody's local currency long-term issuer default ratings.

(iii) Loans to associates and joint ventures

The Group has provided loans to associates and joint ventures of the Group to satisfy operational and other requirements. These associates and joint ventures are located in South Africa. The Group manages credit risk on this portfolio of loans by following strict protocols for the approval thereof, and where possible obtaining appropriate security and other collateral. Management regularly reviews these loans and uses an internal ratings-based system to track credit risk thereon. Allowances for impairment are raised in accordance with the general model in IFRS 9 to which Group policy has been aligned. Refer to note 2.1.

3. Financial risk management and financial instruments *continued*

3.1 Credit risk *continued*

(iii) Loans to associates and joint ventures *continued*

The loss allowance as at 31 May 2022 for loans to associates and joint ventures is determined as follows:

	Gross R'000	Impairment R'000	Net R'000	Average ECL/ impairment ratio %
31 May 2022				
Loans advanced to counterparties without external ratings included in:				
Group 1	41 776	(432)	41 344	(1.03)
Group 3	8 000	(741)	7 259	(9.26)
	49 776	(1 173)	48 603	
31 May 2021				
Loans advanced to counterparties without external ratings included in:				
Group 1	2 000	(67)	1 933	(3.35)
Group 3	23 016	(2 186)	20 830	(9.50)
Group 4	238 812	(238 812)	—	(100.00)
	263 828	(241 065)	22 763	

(iv) Loans receivable

The Group has provided loans to third parties who are seen as product distributors, in order to expand its distribution channels. These loans have been extended on various terms depending on management's assessment of the business rationale for the provision thereof. The Group manages credit risk by following strict protocols for the approval and monitoring of these loans, and where possible, obtaining appropriate security and other collateral. Management regularly reviews these loans and uses an internal ratings-based system to track credit risk thereon. Allowances for impairment are raised in accordance with the general model in IFRS 9 to which Group policy has been aligned.

The loss allowance as at 31 May 2022 for loans receivable is determined as follows:

	Gross R'000	Impairment R'000	Net R'000	Average ECL/ impairment ratio %
31 May 2022				
Loans advanced to counterparties without external ratings included in:				
Group 1	4 242	(93)	4 149	(2.19)
Group 2	25 894	(1 905)	23 989	(7.36)
Group 3	60 818	(7 242)	53 576	(11.91)
Group 4	4 984	(4 984)	—	(100.00)
	95 938	(14 224)	81 714	
31 May 2021				
Loans advanced to counterparties without external ratings included in:				
Group 1	2 003	(67)	1 936	(3.34)
Group 3	78 852	(10 984)	67 868	(13.93)
Group 4	2 491	(2 491)	—	(100.00)
	83 346	(13 542)	69 804	

Notes to the Group annual financial statements continued

for the year ended 31 May 2022

3. Financial risk management and financial instruments continued

3.1 Credit risk continued

(v) Advances to customers

Advances to customers represent the activities of the Group's subsidiary, Comm Equipment Company Proprietary Limited (CEC), which provides financing for cellular handsets and cellular subscription services. This customer base is widely dispersed throughout South Africa and no significant concentrations of credit risk have been noted.

The business model of these financing arrangements changed part-way through the prior year, and exposes the Group to the credit risk of the population of the underlying subscribers who are all customers of Cell C Proprietary Limited and other business partners of CEC.

The current financial year is the first full reporting period incorporating the results of the new business model, which has allowed management to gather additional data and perform refinements to the provision matrix as detailed below. This additional data and the resulting refinements have culminated in an increase in the impairment raised on the Handset financing and subscription income sharing receivables as detailed in the table below.

Management has put in place credit risk policies as well as stringent customer acceptance policies and limits to manage the credit risk exposure at deal initiation. Subsequent to deal initiation, credit risk at a subscriber level is managed through a combination of policies and procedures which limit the customers' ability to incur further debt should their accounts not be up to date.

The Group calculates an ECL for the instruments in this portfolio in accordance with the simplified approach in IFRS 9 using a provision matrix model which takes into account, among others: roll rates; past performance, incorporated through staging, default and curing definitions; and applicable forward looking indicators in line with Group policy. The Group continually refines and improves the model applied to take into account new information and additional data that becomes available as internal processes evolve. These improvements are accounted for prospectively as changes to the ECL estimate when they arise. Refer to note 3.5.3.

The loss allowance as at 31 May 2022 for advances to customers is determined as follows:

	Gross R'000	Impairment R'000	Net R'000	Average ECL/ impairment ratio %
31 May 2022				
Advances to customers without external ratings:				
Collateralised handset financing receivables*	67 355	(782)	66 573	(1.16)
Handset financing and subscription income sharing receivables	1 849 639	(248 674)	1 600 965	(13.44)
	1 916 994	(249 456)	1 667 538	
31 May 2021				
Advances to customers without external ratings:				
Collateralised handset financing receivables*	612 974	(1 542)	611 432	(0.25)
Handset financing and subscription income sharing receivables	1 043 954	(71 529)	972 425	(6.85)
Other receivables	230 979	(2 548)	228 431	(1.10)
	1 887 907	(75 619)	1 812 288	

* Handset financing receivables related to previous commercial arrangement with Cell C.

3. Financial risk management and financial instruments *continued*

3.1 Credit risk *continued*

(v) *Advances to customers* *continued*

The collateral terms of this arrangement with Cell C are as follows:

- Cell C has stringent requirements for the granting of credit to these customers;
- CEC has direct access to the customer cash flows received by Cell C in respect of the handsets and devices financed;
- CEC has direct access to the customer cash flows received by Cell C in respect of the customer subscriptions; and
- in the unlikely event of default, CEC has the right to sell the customer base.

Once the recoverability of these receivables comes into question, the amount is reclassified to Trade and other receivables, with Cell C as the counterparty.

The movement in ECLs is reflected in the table below:

	Trade receivables		Other financial assets*	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
Provision for impairment of receivables				
Balance at the beginning of the year	54 772	131 229	331 772	337 858
Allowances made during the year	30 887	(4 725)	261 475	7 602
Amounts utilised**	(19 316)	(71 732)	(327 524)	(13 688)
At 31 May	66 343	54 772	265 723	331 772

* Other financial assets on which ECLs are applied include loans to associates and joint ventures, loans receivable and advances to customers. Not included in the above table are the ECLs applied within associates and joint ventures accounted for in investments in associates and joint ventures.

** Expected credit losses utilised in the write-off of long outstanding trade and loans receivable, where collection avenues were exhausted.

The effect of credit risk on hedging instruments

On 7 October 2020, The Prepaid Company (TPC) entered into an interest rate swap agreement in respect of its variable rate facility agreement in order to hedge its interest rate risk (refer to note 3.8 for more detail). By using derivative financial instruments to hedge exposures to changes in interest rates, TPC also exposes itself to credit risk of the derivative counterparty, which is not offset by the hedged item. TPC minimises counterparty credit risk in derivative instruments by entering into transactions with high-quality counterparties.

At inception of each hedge, it was determined that the effects of credit risk are not expected to dominate the value changes arising from the hedging relationship as all relevant metrics to demonstrate the existence of an economic relationship have been satisfied.

At each subsequent reporting date, hedge effectiveness for each hedging relationship will be assessed and the effects of credit risk will be considered.

Notes to the Group annual financial statements continued

for the year ended 31 May 2022

3. Financial risk management and financial instruments continued

3.2 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due, both under normal and stressed circumstances.

The Group's objective is to maintain prudent liquidity risk management by maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by keeping committed credit lines available. Cash flow forecasting is performed in the operating entities of the Group to ensure sufficient cash to meet operational needs, while maintaining sufficient headroom to ensure that borrowing limits (where applicable) are not breached.

Surplus cash held by the operating entities over and above the balance required for working capital management is transferred to Group treasury. Group treasury invests surplus cash in interest-bearing accounts, identifying instruments with sufficient liquidity to provide adequate headroom as determined by the above mentioned forecasts.

Maturity of financial liabilities

The table below analyses the undiscounted cash flows for the Group's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date.

		Payable in:				
	Notes	Less than one month or on demand R'000	More than one month but not exceeding one year R'000	More than one year but not exceeding two years R'000	More than two years but not exceeding five years R'000	More than five years R'000
2022						
Interest-bearing borrowings	3.6.2	14 130	2 198 187	495 308	—	—
Non-interest-bearing borrowings	3.6.2	719	—	—	—	—
Trade and other payables*	3.6.1	2 369 306	3 560 412	—	—	—
Lease liabilities	3.9	2 676	36 306	7 096	3 210	—
Derivative liability	3.7	—	110 000	—	—	—
Other financial liabilities at fair value through profit or loss	3.7	—	23 282	—	—	—
Financial guarantee contracts	3.6.3	—	—	—	—	—
Bank overdraft	3.5.4	63	11	—	—	—
Total		2 386 894	5 928 198	502 404	3 210	—
2021						
Interest-bearing borrowings	3.6.2	3 138	1 710 718	2 778	—	—
Non-interest-bearing borrowings	3.6.2	989	—	—	—	—
Trade and other payables*	3.6.1	2 148 300	3 739 653	—	—	—
Lease liabilities	3.9	2 341	33 331	36 197	9 346	—
Derivative liability	3.7	—	201 678	—	—	—
Financial liability at fair value through profit or loss	3.7	564	—	—	—	—
Financial guarantee contracts	3.6.3	104 950	671	—	—	—
Bank overdraft	3.5.4	118	—	—	—	—
Total		2 260 400	5 686 051	38 975	9 346	—

* Trade and other payables exclude non-financial instruments, being VAT, deferred revenue and certain amounts included within accruals and sundry creditors.

For details of the maturity of the financial asset at fair value through other comprehensive income at the statement of financial position date to the contractual maturity date, refer to note 3.3.

3. Financial risk management and financial instruments *continued*

3.2 Liquidity risk *continued*

Maturity of financial liabilities *continued*

As part of the restructure of the debt into Cell C by third-party lenders, The Prepaid Company was required to provide liquidity support to Magnolia Cellular Investment 2 (RF) Proprietary Limited (SPV2), which is 100% held by 3C Telecommunications Proprietary Limited, of up to USD80 million, which liquidity support was to be provided over 24 months in the form of subordinated funding to SPV2. Oger Telecoms contributed USD36 million of the aforesaid USD80 million, thus reducing The Prepaid Company's obligation in this regard to a maximum of USD44 million. As at 31 May 2021, the Group had contributed the full USD44 million to SPV2.

Group facilities

The Group has access to the following facilities in order to meet its liquidity needs:

Facility	Borrower	Investec	African Bank	Value R'000	Interest rate	Interest period	Repayment date
Facility A	The Prepaid Company Proprietary Limited	100%	—	1 125 000	Prime	Monthly	31 March 2023*
African Bank	Comm Equipment Company Proprietary Limited	—	100%	1 900 000	11.05% fixed for 24 months	Monthly	25 November 2023
				3 025 000			

* Subsequent to year-end, the Group has renewed these facilities until 30 September 2023. Refer to note 9.

The working capital loan facilities available to The Prepaid Company at year-end amounted to R1.125 billion (2021: R1.45 billion), of which R942 million (2021: R1.3 billion) had been utilised. Refer to note 3.6.2.

- The working capital loan facility available to The Prepaid Company at year-end is required to reduce by R120 million in September 2022, to R1.005 billion.
- The following debt covenants applied to the TPC facilities with Investec:
 - debt to EBITDA ratio must be less than 2.5 times;
 - the sum of 70% of debtors and 80% of stock must exceed the utilised value of the facility, and must exceed 100% of the utilised facility at year-end and half-year-end; and
 - BLT's market capitalisation must exceed R2 billion.

The Group has not been in breach in respect of these covenants.

The Group has pledged certain securities in respect of this facility. Refer to notes 3.5.2 and 4.4.

Comm Equipment Company Proprietary Limited (CEC) has a financing facility with African Bank of R1.9 billion (2021: R410.5 million with Investec Bank).

- The utilised portion of the facility at year-end amounted to R1.623 billion (2021: R410.5 million from Investec Bank). Refer to note 3.6.2.
- The Group has pledged the outstanding value of handset receivables totalling R1.8 billion as security for the utilised facility.

In addition to these facilities, the Group has sufficient working capital resources in the form of cash, trade receivables and realisable inventory to be able to adequately meet its short-term obligations.

Pledges, guarantees and sureties

The shares in CEC have been pledged as security for the R1.125 billion Investec Bank facilities. Blue Label Telecoms and The Prepaid Company have issued guarantees to the value of R250 million for the African Bank facility.

The Group has overdraft, credit card and debit order collection facilities with FNB, a division of First National Bank Limited (FNB). These facilities have been secured through Group cross-sureties issued by the Company and certain subsidiary companies. These facilities, which remain substantially unchanged from the prior year, comprised an overdraft facility of R19.85 million, credit card facility of R1.4 million and a debit order settlement facility of R11 million.

Guarantees to the value of R2.4 billion (2021: R2.1 billion) are issued by the Group's bankers in favour of suppliers on behalf of the Group. The Group does not have access to this portion of its facilities while amounts owing to suppliers are outstanding.

Notes to the Group annual financial statements continued

for the year ended 31 May 2022

3. Financial risk management and financial instruments continued

3.3 Market risk

Market risk is the risk that changes in market prices (interest rate and currency risk) will affect the Group's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group is exposed to risks from movements in interest rates and foreign exchange rates that affect its assets, liabilities and anticipated future transactions. The Group is not exposed to significant levels of price risk.

(i) Interest rate risk

The Group's cash flow interest rate risk arises from loans receivable, cash and cash equivalents, and borrowings carrying interest at variable rates. The Group is not exposed to fair value interest rate risk as the Group does not have any fixed interest-bearing instruments carried at fair value other than the instruments detailed in note 3.7 where the fair value risk of these instruments is detailed.

As part of the process of managing the Group's exposure to interest rate risk, interest rate characteristics of new borrowings and the refinancing of existing borrowings are positioned according to expected movements in interest rates.

Estimated change to profit or loss as a result of increase/decrease in market interest rates	2022 R'000	2021 R'000
An increase or decrease in the market interest rates of 0.25% (25 basis points) would increase/decrease profit before tax by	7 086	8 094

The interest rate sensitivity analysis is based on the following assumptions:

- changes in market interest rates affect the interest income or expense of variable interest financial instruments; and
- changes in market interest rates only affect interest income or expense in relation to financial instruments with fixed interest rates if these are recognised at fair value.

Interest rate risk management strategy

The Prepaid Company (TPC), a wholly owned subsidiary of the Group, currently has ZAR-denominated floating rate debt instruments and is therefore exposed to variability in interest payments as a result of interest rate fluctuations. To hedge this interest rate risk, TPC took out a pay-fixed, receive-floating interest rate swap instrument in the prior year. This type of hedging relationship is a cash flow hedge. Refer to note 3.8 for more details.

The Group held the following interest rate swaps as hedging instruments in cash flow hedges of interest risk:

Estimated change to profit or loss as a result of increase/decrease in market interest rates	Maturity 2 - 5 years
Nominal amount (R'000)	750 000
Fixed interest rate	7.62%

A reasonably possible change of 25 basis points in the interest rates at the reporting date on the interest rate swap would have increased/(decreased) equity by the following amounts:

Estimated change to profit or loss as a result of increase/decrease in market interest rates	Equity, net of tax R'000
25 bp increase	22 637
25 bp decrease	(17 810)

This sensitivity analysis assumes that all other variables remain constant.

(ii) Foreign currency risk

The Group is exposed to foreign currency risk from transactions and translations. Transaction exposure arises because affiliated companies undertake transactions in currencies other than their functional currency. Translation exposure arises where affiliated companies have a functional currency other than rand.

The Group manages its exposure to foreign currency risk by ensuring that the net foreign currency exposure remains within acceptable levels. Hedging instruments may be used in certain instances to reduce risks arising from foreign currency fluctuations. The Group has reduced its foreign currency exposure substantially in the current year due to its writing off certain USD denominated loans.

In the current year, the Group incurred a foreign exchange loss of R1.2 million (2021: R61.2 million loss) mainly as a result of the Group's USD exposure.

3. Financial risk management and financial instruments *continued*

3.3 Market risk *continued*

Foreign currency sensitivity analysis

The Group has used a sensitivity analysis technique that measures the estimated change to profit or loss of an instantaneous 10% strengthening or weakening in the rand against all other currencies, from the rate applicable at 31 May 2022, for each class of financial instrument with all other variables remaining constant. This analysis is for illustrative purposes only, as in practice, market rates rarely change in isolation.

Net exposure to foreign currencies denominated: functional currency	Net assets/ (liabilities) denominated in foreign currency R'000	Change in exchange rate %	Increase/(decrease) in profit before tax	
			Weakening in functional currency R'000	Strengthening in functional currency R'000
2022				
USD:ZAR	96 572	10	(9 657)	9 657

3.4 Capital adequacy risk

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust this capital structure, the Company may issue new shares, adjust the amount of dividends paid to shareholders, return capital to shareholders or sell assets to reduce debt. The Group defines capital as capital and reserves and non-current borrowings. The Group is required to maintain a market capitalisation of R2 billion in terms of its covenants with Investec Bank in respect of The Prepaid Company's working capital facility.

There were no changes to the Group's approach to capital management during the year.

3.5 Financial assets

3.5.1 Loans receivable

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are included in current assets, except for maturities greater than 12 months after the statement of financial position date, which are classified as non-current assets. For details related to the ECLs, refer to note 3.1.

	2022 R'000	2021 R'000
Interest-free loans	52 729	45 949
Interest-bearing loans receivable	43 209	37 397
Less: Provision for impairment	(14 224)	(13 542)
	81 714	69 804
Amounts included in non-current portion of loans receivable	48 913	44 232
Amounts included in current portion of loans receivable	32 801	25 572

All loans receivable are unsecured and repayable within five years. Interest-bearing loans bear interest at a range of between 9.75% and prime plus three percent. The fair value of interest-free loans, which include loans to product distributors, approximates their carrying value. This has been corroborated through discounted cash flow calculations at the effective interest rate the lender would have been able to secure from a financing institution, using an expected payment timeframe.

3.5.2 Trade and other receivables

Trade receivables comprise receivables that are due from customers which arise from transactions for the sale of goods, rendering of services and leasing of equipment in the ordinary course of business. Trade receivables are primarily accounted for at amortised cost, in accordance with the accounting policies of the Group. Sundry receivables are accounted for at amortised cost in accordance with the accounting policies of the Group. For details related to the ECLs, refer to note 3.1. Receivables for prepayments and VAT are stated at their nominal values.

Notes to the Group annual financial statements continued

for the year ended 31 May 2022

3. Financial risk management and financial instruments continued

3.5 Financial assets continued

3.5.2 Trade and other receivables continued

The following table provides an analysis of the Group's trade and other receivables, including an analysis of trade receivables by originating transaction type as well as by counterparty:

	2022 R'000	2021 R'000
Trade receivables arising on revenue from contracts with customers	1 328 295	1 413 761
Banks	84 935	102 242
Independent and informal retail customers	627 908	648 391
Formal market retail customers	158 224	244 195
Customers in the petroleum sector	73 538	74 922
Receivables for starter packs	74 085	126 966
Cell C	7 580	16 329
Other cellular networks	122 608	72 877
Municipalities and private utilities	179 417	127 839
Trade receivables arising on financing transactions	2 571 784	1 683 401
Cell C	2 557 395	1 660 864
Other	14 389	22 537
Less: Provision for impairment	(66 343)	(54 772)
Net trade receivables	3 833 736	3 042 390
Net sundry debtors	219 689	196 062
Receivables from revenue recognised on fixed term contracts	134 036	54 516
Prepayments	463 841	357 636
VAT	92 036	101 415
	4 743 338	3 752 019
Amounts included in non-current portion of trade and other receivables	—	—
Amounts included in current portion of trade and other receivables	4 743 338	3 752 019

Included in trade receivables are debtors of R84 million (2021: R122 million) which have a cycle period in excess of 12 months but are considered current due to management expecting to realise the assets in their normal operating cycle.

The Group's receivables from revenue recognised on fixed term contracts comprise the following movements for the year:

	2022 R'000	2021 R'000
Balance at the beginning of the year	54 516	30 591
Revenue recognised – Handsets, tablets and other devices	177 130	64 651
Revenue recognised – Finance revenue	13 247	4 031
Amounts becoming due in the period	(110 857)	(44 757)
Loss allowance*	—	—
	134 036	54 516

* The loss allowance was deemed to be immaterial.

Included in receivables from revenue recognised on fixed term contracts are amounts of R34.7 million (2021: R13.9 million) which have a cycle period in excess of 12 months but are considered current due to management expecting to realise the assets in their normal operating cycle of 24 months.

There is a cession of trade receivables (including inter-group balances) of R4.148 billion (2021: R4.083 billion) in favour of Investec Bank Limited as security for facilities referred to in note 3.2.

3. Financial risk management and financial instruments *continued*

3.5 Financial assets *continued*

3.5.3 Advances to customers

Advances to customers comprise receivables arising on financing transactions where, in substance, the nature of the business activities undertaken by certain subsidiaries of the Group is to engage in the provision of financing. Refer to note 3.1 for further detail.

Advances to customers are primarily accounted for at amortised cost, in accordance with the accounting policies of the Group.

	2022 R'000	2021 R'000
Collateralised handset financing receivables	67 355	612 974
Handset financing and subscription income sharing receivables	1 849 639	1 043 954
Other receivables	—	230 979
Less: Provision for impairment	(249 456)	(75 619)
	1 667 538	1 812 288
Amounts included in non-current portion of advances to customers	547 711	570 456
Amounts included in current portion of advances to customers	1 119 827	1 241 832

Cell C guarantees bad debts and cancellations of customers in terms of the *Amended and Restated Product Procurement and Financing Agreement*. At 31 May 2022, bad debts and cancellations amounted to R37 million (2021: R151 million). These amounts are included in the trade receivables balance owing from Cell C. In terms of the above agreement, if Cell C is unable or admits inability to make a payment as it falls due, or is deemed to or declared to be unable to pay its debts under the applicable law, suspends or threatens to suspend making payments by reason of actual or anticipated financial difficulties, it would be in breach of its agreement. If not remedied, CEC ultimately has a right to port the Cell C base to another network operator.

Under the *Supply, Sale and Financing of Products Agreement* effective 1 November 2020, Cell C no longer guarantees bad debts and cancellations and this now exposes the Group to the credit risk of the population of the underlying subscribers who are all customers of Cell C Proprietary Limited. In terms of the *Amended and Restated Product Procurement and Financing Agreement* the Group was only exposed in an indirect manner to the credit risk of Cell C. The guarantees of the previous deal with Cell C remain in place on the portion of the book still operated under this previous business model.

3.5.4 Cash and cash equivalents

Cash and cash equivalents include cash on hand and deposits held on call with banks.

	2022 R'000	2021 R'000
Cash at bank	2 723 365	2 417 224
Cash on hand	226	101
	2 723 591	2 417 325
Bank overdraft	(63)	(118)
	2 723 528	2 417 207

Included in this balance is restricted cash of R45.8 million (2021: R12.1 million), received on behalf of and immediately due to third parties, which may not be utilised in the Group's ordinary course of business.

3.6 Financial liabilities

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Refer to accounting policies on borrowings and trade and other payables for financial liabilities (which exclude employee-related liabilities and VAT), and share capital for equity instruments issued by the Group.

Notes to the Group annual financial statements continued

for the year ended 31 May 2022

3. Financial risk management and financial instruments continued

3.6 Financial liabilities continued

3.6.1 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within the normal operating cycle of the business, i.e. 12 months. If not, they are presented as non-current liabilities.

	2022 R'000	2021 R'000
Trade payables	4 208 011	4 752 564
Accruals	426 920	385 099
Employee benefits	132 286	97 726
Sundry creditors	425 353	272 698
VAT	18 438	6 217
Payables to related parties (refer to note 8)	858 019	460 814
	6 069 027	5 975 118
Amounts included in non-current portion of trade and other payables	—	—
Amounts included in current portion of trade and other payables	6 069 027	5 975 118

In the prior year, deferred revenue was included in Trade and other payables, however in the current year it has been disclosed separately on the face of the balance sheet, the above has therefore been restated. Refer to note 3.6.4.

3.6.2 Borrowings

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

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

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

	2022 R'000	2021 R'000
Interest-bearing borrowings	2 567 752	1 706 163
Non-interest-bearing borrowings	719	989
	2 568 471	1 707 152
Amounts included in non-current portion of borrowings	474 471	2 778
Amounts included in current portion of borrowings	2 094 000	1 704 374

The table below details the facilities drawn upon at 31 May 2022. For terms of these facilities, refer to note 3.2.

Facility	Investec	African Bank	Facility utilised	
			2022 R'000	2021 R'000
Mezzanine facility	100%		—	410 532
Facility A	100%		941 584	1 292 637
African Bank		100%	1 623 342	—
			2 564 926	1 703 169

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

3. Financial risk management and financial instruments continued

3.6 Financial liabilities continued

3.6.2 Borrowings continued

Changes in liabilities arising from financing activities

	Borrowings due within one year R'000	Borrowings due after one year R'000	Total R'000
Opening balance as at 1 June 2020	2 316 383	2 778	2 319 161
Acquisition of subsidiary	726	—	726
Non-interest-bearing borrowings raised	270	—	270
Non-interest-bearing borrowings repaid	(13 959)	—	(13 959)
Interest-bearing borrowings raised	152 007	—	152 007
Interest accrued on interest-bearing borrowings*	152 331	—	152 331
Interest-bearing borrowings capital repaid	(751 053)	—	(751 053)
Interest-bearing borrowings interest repaid	(152 331)	—	(152 331)
Closing balance as at 31 May 2021	1 704 374	2 778	1 707 152
Non-interest-bearing borrowings raised	—	—	—
Non-interest-bearing borrowings repaid	(270)	—	(270)
Interest-bearing borrowings raised through the acquisition of non-controlling interest	104 950	—	104 950
Interest-bearing borrowings raised	1 155 448	471 693	1 627 141
Interest accrued on interest-bearing borrowings*	183 280	—	183 280
Interest-bearing borrowings capital repaid	(870 502)	—	(870 502)
Interest-bearing borrowings interest repaid	(183 280)	—	(183 280)
Closing balance as at 31 May 2022	2 094 000	474 471	2 568 471

* Of the total interest accrued on interest-bearing borrowings, R17 million (2021: R59 million) is accounted for as finance costs incurred in the generation of revenue on the Group income statement. The balance is accounted for in finance costs on the Group income statement.

3.6.3 Financial guarantee contracts

Financial guarantee contracts are recognised at fair value on the date that the Group becomes a party to an irrevocable commitment. Financial guarantee contracts are subsequently stated at the higher of the amount determined by the expected credit loss (ECL) model and the amount initially recognised. Any difference between the redemption value guarantee obligation and the amount paid is recognised in the income statement.

	2022 R'000	2021 R'000
Opening balance	105 621	201 474
Foreign exchange movement	—	(9 113)
Used during the year	—	(53 285)
Extinguishment of guarantee contract through the acquisition of non-controlling interest*	(104 950)	—
Amounts released through profit or loss	(671)	(33 455)
Closing carrying amount	—	105 621

* On 29 June 2021, The Prepaid Company Proprietary Limited (TPC) acquired the remaining 52% shareholding in Glozell Distribution Proprietary Limited (Glozell Distribution). As part of the purchase agreement, TPC assumed Glozell Distribution's obligation of R105 million to Investec Bank Limited. Refer to note 6.2.

In the prior year the Group did not raise a liability for its guarantee to the consortium of financial institutions in respect of Cell C's funding of R182 million due to the fact that it held sufficient collateral, which the Group expected to realise should the guarantee be called upon and the residual financial risk not be material.

Notes to the Group annual financial statements continued

for the year ended 31 May 2022

3. Financial risk management and financial instruments continued

3.6 Financial liabilities continued

3.6.4 Deferred revenue

Deferred revenue represents a prepayment by its customers for goods or services that have yet to be delivered. Deferred revenue is recognised as earned revenue on the income statement as the good or service is delivered to the customer. The amounts recognised will generally be utilised within the next reporting period and therefore disclosed as current.

	2022 R'000	2021 R'000
At May – current/non-current split	113 367	77 731
Amounts included in non-current portion of deferred revenue	—	—
Amounts included in current portion of deferred revenue	113 367	77 731
At May – by category	113 367	77 731
Ringas	101 842	59 488
Other	11 525	18 243
Ringas¹		
Opening balance	59 488	—
Amounts paid to network providers and commission revenue recognised in the current year relating to unredeemed Ringas voucher sales in prior years	(48 409)	—
Gross sales of unredeemed Ringas vouchers in the current year	90 763	59 488
Closing balance	101 842	59 488
Other		
Opening balance	18 243	19 484
Revenue recognised during the year relating to prior years	(17 971)	(18 917)
Additions	11 253	17 676
Closing balance	11 525	18 243

¹ Ringas vouchers are PINless vouchers and are therefore recognised as agent. The balance of the vouchers becomes payable to the network providers with a portion being recognised as commission revenue once the Ringas vouchers are redeemed.

Deferred revenue mainly consists of unredeemed Ringas vouchers. Ringas vouchers are universal, single use, prepaid airtime vouchers that allow you to top-up your number with any of the four major South African mobile networks. The revenue is only recognised when the voucher is redeemed. The payment of these vouchers by the customer is made upfront. Ringas is a relatively new product that launched in September 2020.

3. Financial risk management and financial instruments continued

3.7 Financial instruments at fair value through profit or loss

	Liquidity support (SPV2) R'000	Loans receivable R'000	Derivative liability R'000	Surety loan receivable R'000	Other R'000	Total R'000
Balance as at 1 June 2020	(350 410)	126 604	(77 524)	104 829	10 953	(185 548)
Additions	—	—	—	—	(565)	(565)
Repayments	331 000	—	—	—	3 460	334 460
Fair value gain/(loss) recognised in profit or loss	19 410	—	9 346	(21 116)	3 692	11 332
Other movements	—	—	—	—	(9 282)	(9 282)
Balance as at 31 May 2021	—	126 604	(68 178)	83 713	8 258	150 397
Additions	—	49 524	—	—	(200)	49 324
Repayments	—	(3 003)	—	—	(8 822)	(11 825)
Derecognition on termination recognised in profit or loss	—	—	68 178	—	—	68 178
Recognition of new instrument recognised in profit or loss	—	—	(22 000)	—	—	(22 000)
Fair value gain recognised in profit or loss	—	4 208	—	12 859	564	17 631
Other movements	—	(126 604)	—	—	—	(126 604)
Balance as at 31 May 2022	—	50 729	(22 000)	96 572	(200)	125 101
Financial assets at fair value through profit or loss – included in current assets	—	14 008	—	—	—	14 008
Financial assets at fair value through profit or loss – included in non-current assets	—	36 721	—	96 572	—	133 293
Financial liabilities at fair value through profit or loss – included in current liabilities	—	—	(22 000)	—	(200)	(22 200)
	—	50 729	(22 000)	96 572	(200)	125 101
Unrealised gains/(losses)	—	1 205	(22 000)	12 859	564	(7 372)

Bond notes and liquidity support

With effect from 2 August 2017, The Prepaid Company purchased bond notes, issued by Cedar Cellular Investments 1 Proprietary Limited (SPV1), from Saudi Oger Limited with a capital redemption value of USD42 million and with a coupon rate of 8.625% per annum for a purchase consideration of USD18 million. The Prepaid Company was entitled to assign its rights and obligations, in whole or in part, to a nominee. Accordingly, it has assigned such rights and obligations in respect of 50% of the bond notes, resulting in an effective purchase consideration of USD9 million with a capital redemption value of USD21 million.

As part of the restructure of the debt into Cell C by third-party lenders, The Prepaid Company was required to provide liquidity support to Magnolia Cellular Investment 2 (RF) Proprietary Limited (SPV2), which is 100% held by 3C Telecommunications Proprietary Limited, of up to USD80 million, which liquidity support was provided over 24 months in the form of subordinated funding to SPV2. Oger Telecoms contributed USD36 million of the aforesaid USD80 million thus reducing The Prepaid Company's obligation in this regard to a maximum of USD44 million. By 31 May 2021, the Group had contributed the full USD44 million to SPV2.

Notes to the Group annual financial statements continued

for the year ended 31 May 2022

3. Financial risk management and financial instruments continued

3.7 Financial instruments at fair value through profit or loss continued

Fair value estimate

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

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

The derivatives are level 3 instruments in the fair value hierarchy.

The derivatives are not traded in an active market and therefore the fair value is determined by the use of a valuation technique. In previous years, the valuation was performed using a Monte Carlo simulation taking into account the value of Cell C Limited. As no value was subsequently attributed to Cell C, the recoverable value relating to SPV1 and SPV2 reduced to zero. A liability of USD20 million, in line with the liquidity support obligation to SPV2 and included in financial liabilities at "fair value through profit and loss" was payable as at 31 May 2020 and was settled by a payment of R331 million in the following year, reducing the liability to zero. As at 31 May 2022, no value was attributed to Cell C Limited and as a result thereof, the value of SPV1 and SPV2 remains at zero.

Loans at fair value

On 30 June 2018, The Prepaid Company (TPC) acquired a 48% share in Glozell Distribution Proprietary Limited (Glozell Distribution). In terms of an agreement entered into between TPC and Glozell Proprietary Limited (Glozell) during the year ended 31 May 2019, Glozell pledged its 40% shareholding in Glozell Distribution to TPC, in the event of Glozell defaulting on amounts owing to TPC. On 29 June 2021, The Prepaid Company acquired an additional 52% shareholding in Glozell Distribution for a total purchase consideration of R137 million, of which R126 million was discharged by way of a conversion of debt owing by Glozell Proprietary Limited, the owners of 40% of the company, to The Prepaid Company. The remaining 12% was acquired by The Prepaid Company for R11 million. Refer to note 6.2.

As part of the fraud recoupment (refer note 1.3), the Group received the right to a loan, amounting to R73 million, advanced to a third party. The loan bears interest at prime overdraft rate and is repayable by 30 June 2026. Interest is payable up to 30 June 2022 and thereafter interest and capital are payable. In addition to the interest payments required, the borrower had the right to pay R10 million capital by 1 July 2022 in return for a R4.2 million discount in the capital amount of the loan. It is the Group's view that this right results in the contractual cash flows failing to meet the requirements for amortised cost accounting, causing the loan to be measured at fair value through profit or loss. This right was not exercised. The fair value of the loan reflects a market-related interest rate of prime plus 5% and credit risk-adjusted expected cash flows.

Derivative liability

In October 2020, shareholders of Airvantage Proprietary Limited ("Airvantage") and AV Technology Limited ("AV Tech") exercised their rights to put their 40% shareholding therein to Blue Label Telecoms ("BLT"), in line with the initial agreements that were concluded between the parties in 2017. The purchase consideration under the put options, as determined by the parties in December 2020, for the 40% shareholdings in Airvantage and AV Tech, amounted to USD10.1 million and USD4.6 million respectively ("purchase price").

In February 2021, the parties concluded an agreement legislating for a deferral of the purchase price payable to the minority shareholders of Airvantage and the minority shareholder of AV Tech from 31 December 2020 to 31 March 2021, with subsequent extensions being granted, payable in six equal monthly instalments, inclusive of interest, commencing on 30 November 2021.

If Cell C Limited's board is able to pass a solvency and liquidity test, the primary obligation in respect of the put options can be transferred to Digital Ecosystems Proprietary Limited ("DE"), formerly Blue Label Mobile Proprietary Limited, in terms of the agreement concluded with it in September 2019.

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

3. Financial risk management and financial instruments *continued*

3.7 Financial instruments at fair value through profit or loss *continued*

Derivative liability *continued*

In valuing the put option, management has taken into account the adverse impact on Airvantage's operations should the solvency and liquidity of Cell C remain unproven, since the Airvantage business is largely dependent on Cell C. Therefore the derivative has been measured at the difference between the fair value of Airvantage and the exercise price of the put option. Accordingly, these inputs are level 3 inputs per the fair value hierarchy.

The same facts and circumstances were taken into account in this accounting judgement as were taken into account in note 2 "Critical accounting judgement and assumptions" section (e) "Going concern of Cell C" with management concluding the following:

	R'000
Total value of Airvantage put option liability as agreed by the parties (A)	110 000
Attributed probability percentage of the solvency and liquidity of Cell C remaining unproven (B)	20%
Extent that the exercise price does not represent the fair value of the underlying shares (A x B)	22 000

Should management have attributed a 100% probability to the solvency and liquidity of Cell C being proven, the entire put option would have been considered to be at value and, as such, no liability would have been recognised. Conversely, should management have attributed a 0% probability to the solvency and liquidity of Cell C being proven, the entirety of the portion of the put option related to Airvantage would have been considered to not be at value and, as such, a liability of R110 million would have been recognised.

Surety loans receivable

Surety loans relate to the personal sureties that B Levy and M Levy signed for the US Dollar denominated loan owed by 2DFine Holdings Mauritius to Gold Label Investments Proprietary Limited. Their liability is limited to the difference between the loan owing to Gold Label Investments Proprietary Limited and the value of 16.95% of the shares in Oxigen Services India Private Limited (Oxigen Services) and 17.29% of the shares in Oxigen Online Services India Private Limited (Oxigen Online). In November 2021 the payment terms for the surety loans were renegotiated, with the payments being agreed as instalments payable annually commencing on 30 September 2023 and ending on 30 September 2030.

3.8 Financial instruments at fair value through other comprehensive income

The Group designates certain derivatives as hedging instruments in respect of foreign currency risk and interest rate risk in fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of cash flow hedging reserve, limited to the cumulative change in fair value of the hedged item from inception of the hedge. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in finance costs.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item.

Notes to the Group annual financial statements continued

for the year ended 31 May 2022

3. Financial risk management and financial instruments continued

3.8 Financial instruments at fair value through other comprehensive income continued

However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are removed from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability. This transfer does not affect other comprehensive income. Furthermore, if the Group expects that some or all of the loss accumulated in the cash flow hedging reserve will not be recovered in the future, that amount is immediately reclassified to profit or loss.

The Group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. Any gain or loss recognised in other comprehensive income and accumulated in cash flow hedge reserve at that time remains in equity and is reclassified to profit or loss when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in the cash flow hedge reserve is reclassified immediately to profit or loss.

	Interest rate swap	
	2022 R'000	2021 R'000
Opening balance	6 915	—
Day 1 fair value loss recognised in operating profit/loss	—	(3 537)
Change in value of the hedging instrument recognised in other comprehensive income	10 262	7 751
Interest settlements	3 047	2 701
Closing balance	20 224	6 915
Amounts included in non-current portion of financial assets at fair value through other comprehensive income	8 536	6 915
Amounts included in current portion of financial assets at fair value through other comprehensive income	11 688	—

3.9 Leases

The Group leases various offices and warehouses. Rental contracts are typically concluded for fixed periods of one to five years but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments as applicable:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees; and
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. To determine this rate, the Group, where possible, uses recent third-party financing received, adjusted to reflect changes in circumstances and financing conditions since financing was obtained.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

3. Financial risk management and financial instruments *continued*

3.9 Leases *continued*

Payments associated with short-term leases (12 months or less) and leases of low-value assets (less than R50 000) are recognised on a straight-line basis as an expense in profit or loss.

	Retail space R'000	Office space R'000	Warehouse space R'000	Total R'000
Lease liabilities				
Year ended 31 May 2022				
Opening balance	1 000	71 438	687	73 125
Increase in liabilities	—	4 155	2 706	6 861
Interest expense	—	5 722	137	5 859
Repayments	—	(36 278)	(1 579)	(37 857)
Lease modifications	(1 000)	(106)	—	(1 106)
Closing balance	—	44 931	1 951	46 882
Included in non-current liabilities	—	9 008	490	9 498
Included in current liabilities	—	35 923	1 461	37 384
Year ended 31 May 2021				
Opening balance	28 623	110 552	1 948	141 123
Increase in liabilities	—	562	—	562
Interest expense	—	8 775	140	8 915
Repayments	(7 724)	(40 775)	(1 401)	(49 900)
Lease modifications	(19 899)	(7 676)	—	(27 575)
Closing balance	1 000	71 438	687	73 125
Included in non-current liabilities	—	40 188	77	40 265
Included in current liabilities	1 000	31 250	610	32 860
	Retail space R'000	Office space R'000	Warehouse space R'000	Total R'000
Lease assets				
Year ended 31 May 2022				
Opening balance	—	58 143	603	58 746
Additions	—	4 155	2 706	6 861
Depreciation	—	(27 898)	(1 443)	(29 341)
Closing balance	—	34 400	1 866	36 266
Year ended 31 May 2021				
Opening balance	—	86 005	1 847	87 852
Additions	—	562	—	562
Depreciation	—	(28 148)	(1 244)	(29 392)
Impairments	—	(439)	—	(439)
Lease modifications	—	163	—	163
Closing balance	—	58 143	603	58 746

Critical accounting judgements and assumptions

The term of a lease includes periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option. The Group did not take into account renewals in the majority of leases as there is material uncertainty as to whether the option to renew will be exercised. Material uncertainty arises in cases where BLT is not locked into renewals, alternative leasing arrangements are available and there is no firm commitment or formal decision to renew.

Notes to the Group annual financial statements continued

for the year ended 31 May 2022

4. Non-financial instruments

Non-financial instruments comprise:

- goodwill;
- intangible assets;
- property, plant and equipment; and
- inventories.

Impairment of non-financial assets

The Group evaluates the carrying value of assets with finite useful lives when events and circumstances indicate that the carrying value may not be recoverable and when there are indicators of impairment. These assets are tested annually for impairment and more frequently when events or circumstances indicate that there may be impairment.

An impairment loss is recognised in the income statement when the carrying amount of an asset exceeds its recoverable amount. An asset's recoverable amount is the higher of the fair value less cost of disposal (the amount obtainable from the sale of an asset in an arm's-length transaction between knowledgeable willing parties), or its value-in-use. Value-in-use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. The estimated future cash flows 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. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

An impairment loss recognised for an asset, other than goodwill, in prior years is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised and the recoverable amount exceeds the new carrying amount. The reversal of the impairment is limited to the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior years. The reversal of such an impairment loss is recognised in the income statement in the same line item as the original impairment charge.

4.1 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is attributable to synergies that the Group expects to derive from the transaction. If the cost of acquisition is less than the net assets of the subsidiary acquired, the difference is recognised directly in the income statement. Goodwill on the acquisition of subsidiaries is included in "Goodwill" in the statement of financial position. Goodwill on the acquisition of associates and joint ventures is included in "Investments in and loans to associates and joint ventures".

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment is recognised.

Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

4. Non-financial instruments continued

4.1 Goodwill continued

Critical accounting estimates and assumptions

Assessment of goodwill for impairment

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

	2022 R'000	2021 R'000
Year ended 31 May		
Opening carrying amount	681 754	681 243
Acquisition of subsidiary	—	511
Closing carrying amount	681 754	681 754
At 31 May		
Cost	1 077 452	1 077 452
Accumulated impairments	(395 698)	(395 698)
Carrying amount	681 754	681 754

The carrying amount of goodwill and intangible assets is reduced to their recoverable amounts through recognition of an impairment loss when required. 2022: nil (2021: nil).

The cash-generating units to which goodwill is allocated are presented below:

	2022 R'000	2021 R'000
Blue Label Distribution Proprietary Limited	36 364	36 364
CEC Proprietary Limited	335 468	335 468
Datacel Group	79 854	79 854
Glocell Distribution Proprietary Limited	161 697	161 697
Heroticket Proprietary Limited	511	511
The Prepaid Company Proprietary Limited	62 113	62 113
TicketPros Proprietary Limited	5 104	5 104
Visual Revenue Management Proprietary Limited	643	643
	681 754	681 754

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

The recoverable amount has been determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by the Board of Directors for the forthcoming year and forecasts for up to five years which are based on assumptions of the business, industry and economic growth. Cash flows beyond this period are extrapolated using terminal growth rates, which do not exceed the expected long-term economic growth rate.

Notes to the Group annual financial statements continued

for the year ended 31 May 2022

4. Non-financial instruments continued

4.1 Goodwill continued

The key assumptions used for the value-in-use calculations are as follows:

	2022			2021		
	Average EBITDA margin %	Terminal growth rate %	Pre-tax discount rate %	Average EBITDA margin %	Terminal growth rate %	Pre-tax discount rate %
Blue Label Distribution Proprietary Limited	4.9	4.5	20.3	3.4	5.0	24.0
CEC Proprietary Limited	25.4	*	26.9 ¹	22.5	*	21.6
Datacel Group	10.7	4.5	22.9	12.1	5.0	22.5
Glocell Distribution Proprietary Limited	36.1 ²	4.5	21.8	53.9	5.0	20.8
The Prepaid Company Proprietary Limited	3.7	4.5	15.9	2.8	5.0	14.9

* The value-in-use calculation performed on CEC covers a fixed term of nine years based on the time frame of the underlying contract, hence no terminal growth rate is applied.

¹ The increase in the pre-tax discount rate of 5.3% was attributable to a higher risk free and beta being applied.

² The 17.8% decrease in average EBITDA margin resulted from a significant increase in forecast starter pack sales at reduced margins.

The discount rates used are pre-tax and reflect specific risks relating to the relevant associates and subsidiaries. The growth rate is used to extrapolate cash flows beyond the budget period. The growth rates were consistent with publicly available information relating to long-term average growth rates for each of the markets in which the companies/cash-generating units operate. The Group's target debt to equity ratio is applied in the calculation of the weighted average cost of capital.

For all goodwill balances, except the goodwill tested for sensitivity below, if one or more of the inputs were changed to a reasonable possible alternative assumption, there would be no impairments that would have to be recognised.

The following inputs applied when calculating the value-in-use calculation would need to be increased/decreased by the following amounts before any impairments would be required:

	Increase in discount rate %	Reduced annual increase in subscription base Units	Decrease in annual EBITDA %	Decrease in terminal growth rate R'000	Excess over carrying value R'000
CEC Proprietary Limited	2.0	20 856	6.8	n/a	209 473
Glocell Distribution Proprietary Limited	15.5	n/a	56.0	4.5	158 358

The goodwill balances did not result in impairment charges for the year when compared to recoverable amounts (2021: nil).

4. Non-financial instruments *continued*

4.2 Intangible assets

(a) Distribution agreements and customer relationships

Distribution agreements and customer relationships acquired through business combinations are initially shown at fair value as determined in accordance with IFRS 3 – *Business Combinations*, and are subsequently carried at the initially determined fair value less accumulated amortisation and impairment losses.

Amortisation is calculated using the straight-line method to allocate the value of these assets over their estimated useful lives of up to 20 years.

Distribution agreements purchased are initially shown at cost, and are subsequently carried at the initial cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the value of these assets over their estimated useful lives (20 years).

(b) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Computer software has a finite useful life and is subsequently carried at cost less accumulated amortisation and impairment. Amortisation is calculated using the straight-line method to allocate the cost of the computer software over its estimated useful life (three to 10 years).

Costs associated with the maintenance of existing computer software programs are expensed as incurred.

(c) Internally generated software development

Costs incurred on development projects are recognised as intangible assets when the following criteria are fulfilled:

- it is technically feasible to complete the intangible asset and that it will be available for use or sale;
- management intends to complete the intangible asset and use or sell it;
- there is an ability to use or sell the intangible asset;
- it can be demonstrated how the intangible asset will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- the expenditure attributable to the intangible asset during its development can be reliably measured.

Research expenditure is recognised as an expense as incurred. Other development expenditures that do not meet these criteria are recognised as an expense as incurred.

Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised internally generated software development costs are recorded as intangible assets and amortised from the point at which the asset is available for use (i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management) on a straight-line basis over its useful life (five to 10 years). Direct costs include the product development employee costs and an appropriate portion of relevant overheads. Costs associated with the maintenance of existing products are expensed as incurred.

(d) Purchased starter pack bases and postpaid bases

Starter packs capitalised represent customer relationships that the Group has contractually acquired. The purchased starter pack base asset is identifiable as it arises from a contract. The contract provides the Group with control over the customer base. The customer base does not have physical substance and is therefore intangible. This asset provides the Group with the ability to generate future economic benefits if the Group provides connection, upgrade and sales services to the customer base. Therefore, the asset is non-monetary.

Purchased starter pack bases are initially recognised at the cost to the Group. Starter pack bases have a finite life and are subsequently carried at cost less accumulated amortisation and impairment. Amortisation is calculated using the straight-line method over their estimated useful lives (10 years).

Purchased postpaid bases represent the right to share in the revenue of the cellular network in respect of contracts forming part of the acquired base, which comprises identifiable subscribers. Postpaid bases have a finite life and are subsequently carried at cost less accumulated amortisation and impairment. Amortisation is calculated using the straight-line method over their estimated useful lives (10 years).

Notes to the Group annual financial statements continued

for the year ended 31 May 2022

4. Non-financial instruments continued

4.2 Intangible assets continued

(e) Subscription income sharing arrangement

During the 2021 financial year, the Group, through its subsidiary CEC, entered into an arrangement with Cell C to facilitate Cell C's operation of its postpaid mobile telecommunication business. The agreement commenced on 1 November 2020 for an initial period of five years, with the Group having the right to renew for a further four years. Upon expiration of the renewal period, Cell C has the right to terminate the arrangement for a fee, failing which the Group has the right to acquire the new subscriber base, or to nominate a third party to acquire it, for a fee.

The Group is entitled to receive a share of the subscription income generated by Cell C from a subset of postpaid subscribers that sign up, extend or upgrade their subscriptions with Cell C after 1 November 2020 (New and Upgrade subscribers), plus certain fixed and variable payments. Cell C will remain entitled to the subscription income of existing subscribers at 31 October 2020 (Existing subscribers) for the remainder of the subscribers' contract and a share of the ongoing revenue of New and Upgrade subscribers. The income that CEC earns under the arrangement is primarily not as compensation for services provided, but rather as a result of the income stream that it has acquired. The Group and Cell C have outsourced the operation of the postpaid base to Vodacom as part of this arrangement. In return, the Group has undertaken to bear the operating costs in respect of Cell C's postpaid subscriber business for the duration of the arrangement. The operating costs of the postpaid base borne by the Group that are not associated with the New and Upgrade subscribers, are recognised as the cost of obtaining the subscription income sharing arrangement. The Group has selected the cost accumulation model to capitalise these costs to the intangible asset as and when they are incurred, net of the variable payments from Cell C, which are considered to be Cell C's contribution towards those operating costs. The monthly capitalisation rate is determined by calculating the proportion of the monthly subscription revenue attributable to Cell C from existing subscribers at 31 October 2020 compared to the total monthly revenue arising from Cell C's postpaid subscriber base. The subscription income sharing arrangement is carried at cost less accumulated amortisation and accumulated impairment. Amortisation is calculated using the straight-line method over the life of the arrangement, which is expected to be nine years. The operating costs of the postpaid base borne by the Group that are associated with the New and Upgrade subscribers are accounted for as and when they are incurred, and reduce the amount recognised as revenue (refer to note 1.2) as the Group is already receiving its share of the subscription income from these New and Upgrade subscribers.

(f) Subscriber acquisition costs

Under the subscription income sharing arrangement with Cell C, the Group has agreed to bear the commissions that Cell C pays to third parties involved in signing up or upgrading the particular Cell C postpaid subscribers, from 1 November 2020, from which the Group benefits. Since these costs are incremental costs that would otherwise not have been incurred had the particular subscribers not signed up with Cell C, and because they are costs borne by the Group in order to share in the subscription income generated by Cell C from these subscribers, these costs are capitalised by the Group, when incurred by Cell C, and amortised over the expected life of the related subscriber contracts between Cell C and the subscribers, which is anticipated to be two years.

4. Non-financial instruments continued

4.2 Intangible assets continued

Critical accounting estimates and assumptions

Subscription income sharing arrangement

Management applied significant judgement in determining the appropriate accounting treatment for the subscription income sharing arrangement with Cell C. Since the substance of the agreement with Cell C is that of a right to a future net income stream, not to fund Cell C, management considered whether this right should be accounted for as a financial asset or as an intangible asset. Although the Group has a contractual right to receive (net) cash flows from Cell C, these (net) cash flows only originate from Cell C as and when it provides mobile telecommunication services to the particular postpaid subscribers that sign up, extend or upgrade their subscriptions with Cell C after 1 November 2020 (New and Upgrade postpaid subscribers). Thus, Cell C does not have an unconditional obligation to make these payments to the Group before it has a contractual right to receive such payments from these subscribers, which means that Cell C does not have a financial liability at the commencement of the arrangement with the Group. In order for one party, the Group, to have a financial asset, another party, Cell C, must have a financial liability. In addition, the Group is undertaking activities, such as marketing, aimed at increasing the economic benefits to be derived from the arrangement with Cell C. Accordingly, management believed that the Group's right to future cash flows under the arrangement was not a financial asset, but rather an intangible asset. Significant judgement was also applied in determining the cost of obtaining the right to the future net income stream. Since the Group is prepared to bear Cell C's costs that do not relate to the income generated by Cell C from the New and Upgrade postpaid subscribers from which the Group benefits, it was determined that such costs constitute the cost of obtaining the subscription income sharing arrangement.

Furthermore, since the variable payments from Cell C also do not relate to the aforementioned New and Upgrade postpaid subscribers, it was determined that these payments represent Cell C's contribution towards its costs borne by the Group, and that the cost of the intangible asset should be measured net of these payments, rather than recognising these payments as revenue. The Group's share of the subscription income, net of the related operating costs borne by the Group, from the New and Upgrade postpaid subscribers, is recognised as revenue (refer to note 1.2).

The intangible asset forms part of the assets of CEC and a value-in-use calculation was performed on CEC at 31 May 2022 and no impairment was required, refer note 4.1.

Estimated useful lives and residual values

The relative size of the Group's subscription income sharing arrangement, subscriber acquisition costs, purchased starter pack bases and postpaid starter pack bases makes the judgements surrounding their estimated useful lives and residual values critical to the Group's financial position and performance. Useful lives are reviewed on an annual basis with the effects of any changes in estimate accounted for on a prospective basis. The residual values of these assets are assumed to be zero for purposes of measuring the related amortisation, including for the subscription income sharing arrangement which may have a value at the end of its estimated life of nine years, since Cell C would be required to buy back the Group's right if Cell C elects to terminate the arrangement at that point. The estimated useful life of nine years is based on management's estimate that after the initial five-year period, the Group will renew for a further four years. The buy back price is based on a formula that takes account of Cell C's income from the related postpaid subscriber base in the future, which is highly uncertain, and there is the possibility that Cell C does not buy back the Group's right, but that the Group buys the subscriber base from Cell C. Accordingly, given the significant uncertainty surrounding the future value of the subscription income sharing arrangement, management have assumed a residual value of zero.

Notes to the Group annual financial statements continued

for the year ended 31 May 2022

4. Non-financial instruments continued

4.2 Intangible assets continued

	Distribution agreement R'000	Customer relationships R'000	Computer software R'000	Internally generated software development R'000	Purchased starter pack bases and postpaid bases R'000	Subscription income sharing arrangement R'000	Subscriber acquisition costs R'000	Total R'000
Year ended 31 May 2022								
Opening carrying amount	300 927	9 496	17 991	34 767	70 453	526 140	91 853	1 051 627
Additions	—	—	14 233	22 004	10 638	692 877	212 285	952 037
Amortisation charge	(48 032)	(4 558)	(12 322)	(11 509)	(27 129)*	(114 581)*	(119 984)*	(338 115)
Closing carrying amount	252 895	4 938	19 902	45 262	53 962	1 104 436	184 154	1 665 549
At 31 May 2022								
Cost	557 056	120 555	134 929	143 873	356 557	1 238 259	323 204	2 874 433
Accumulated amortisation	(304 161)	(115 617)	(115 027)	(98 611)	(302 595)	(133 823)	(139 050)	(1 208 884)
Carrying amount	252 895	4 938	19 902	45 262	53 962	1 104 436	184 154	1 665 549
Year ended 31 May 2021								
Opening carrying amount	349 894	14 055	32 151	29 230	108 523	—	—	533 853
Additions	—	—	11 636	19 283	5 785	545 382	110 919	693 005
Disposals	—	—	(4 300)	—	—	—	—	(4 300)
Amortisation charge	(48 967)	(4 559)	(20 742)	(13 746)	(43 855)*	(19 242)*	(19 066)*	(170 177)
Impairments**	—	—	(754)	—	—	—	—	(754)
Closing carrying amount	300 927	9 496	17 991	34 767	70 453	526 140	91 853	1 051 627
At 31 May 2021								
Cost	569 337	117 509	128 897	109 869	345 919	545 382	110 919	1 927 832
Accumulated amortisation	(268 410)	(108 013)	(110 906)	(75 102)	(275 466)	(19 242)	(19 066)	(876 205)
Carrying amount	300 927	9 496	17 991	34 767	70 453	526 140	91 853	1 051 627

* Included in the amortisation charge is an amount of R261.7 million (2021: R82.2 million) in respect of the purchased starter pack bases and postpaid bases, subscription income sharing arrangement and subscriber acquisition costs, which is charged to the direct operating costs line in the income statement.

** Impairments of intangible assets are included in depreciation and amortisation on the Group income statement.

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 asset's 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.

4. Non-financial instruments continued

4.3 Property, plant and equipment continued

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 depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

	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 2022							
Opening carrying amount	74 394	11 504	16 456	11 994	75 746	4 099	194 193
Additions	11 585	3 746	20 163	1 108	41 211	—	77 813
Disposals	(1 081)	(76)	(2 290)	(657)	(4 306)	—	(8 410)
Depreciation charge	(22 383)	(4 150)	(6 442)	(4 412)	(27 316)	—	(64 703)
Impairments*	—	—	—	—	(3 580)	—	(3 580)
Closing carrying amount	62 515	11 024	27 887	8 033	81 755	4 099	195 313
At 31 May 2022							
Cost	130 732	21 899	43 643	52 700	178 488	4 099	431 561
Accumulated depreciation	(68 217)	(10 875)	(15 756)	(44 667)	(89 762)	—	(229 277)
Accumulated impairments	—	—	—	—	(6 971)	—	(6 971)
Carrying amount	62 515	11 024	27 887	8 033	81 755	4 099	195 313
Year ended 31 May 2021							
Opening carrying amount	78 068	9 963	17 505	12 677	76 376	4 099	198 688
Additions	23 539	5 544	8 129	3 584	30 418	—	71 214
Acquisition of subsidiary	20	—	—	—	—	—	20
Disposals	(15)	(193)	(2 891)	—	—	—	(3 099)
Depreciation charge – continuing operations	(27 176)	(3 759)	(6 262)	(4 267)	(25 582)	—	(67 046)
Depreciation charge – discontinued operations	—	—	(25)	—	—	—	(25)
Impairments*	(42)	(51)	—	—	(5 466)	—	(5 559)
Closing carrying amount	74 394	11 504	16 456	11 994	75 746	4 099	194 193
At 31 May 2021							
Cost	189 383	55 858	30 692	106 898	190 914	4 099	577 844
Accumulated depreciation	(106 424)	(32 349)	(14 236)	(57 076)	(103 206)	—	(313 291)
Accumulated impairments	(8 565)	(12 005)	—	(37 828)	(11 962)	—	(70 360)
Carrying amount	74 394	11 504	16 456	11 994	75 746	4 099	194 193

* Impairments of property, plant and equipment are 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 2022

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.

	2022 R'000	2021 R'000
Finished goods		
Prepaid airtime	1 004 417	875 963
Handsets	56 117	39 189
Other*	82 838	50 794
	1 143 372	965 946

* Other inventory mainly consists of accessories, starter packs, consumables and gym equipment.

Inventories with a cost of R14.9 billion (2021: R16.3 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 R1.3 million (2021: R1.3 million).

A general notarial bond is held by Investec Bank Limited over airtime up to R1.2 billion (2021: 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.

5. Employees

5.1 Equity compensation benefit

During the year, 8 717 136 (2021: 14 611 406) forfeitable shares were granted to Executive Directors and qualifying employees (participant). The participant will forfeit the forfeitable shares if he/she ceases to be an employee of an employer company before the vesting date or if the specified performance conditions have not been met, unless otherwise specified by the rules or determined by the Board. In the event that the participant is not in the employ of the Group, or the performance conditions are not met, the shares allocated to the participant will be forfeited and will either be sold on the open market by the escrow agent and the proceeds will be returned to the participating employer, or may be retained by the Group for future awards.

Dividends declared in respect of these forfeitable shares are held in escrow until such time as the performance conditions are met and the shares have vested. Shares forfeited during the vesting period will forfeit any dividends pertaining to such shares. No dividend was declared during the current or prior year.

The performance condition for Executive Directors/senior managers respectively for the eleventh award grant that vested on 16 March 2022 are as follows:

- 33.33%/40% for retention (three years from date of award); and
- 66.67%/60% financial (33.34%/30% for growth in core headline earnings per share and 33.33%/30% based on shareholder returns).

The 33.34%/30% for growth in core headline earnings per share is based on the following achievements:

- if growth is 5% above CPI compounded annually over three years, then 20% of the 33.34%/30% will vest;
- if growth is 10% above CPI compounded annually over three years, then an additional 50% (i.e. a total of 70%) of the 33.34%/30% would vest. If growth is between 5% and 10% above CPI over the three years, then the additional 50% will be reduced on a pro rata basis; and
- if growth is 25% above CPI compounded annually over three years, then a further 30% (i.e. a total of 100%) of the 33.34%/30% will vest. If growth is between 10% and 25% above CPI over the three years, then the additional 30% will be reduced on a pro rata basis.

5. Employees continued

5.1 Equity compensation benefit continued

The 33.33%/30% for shareholder return is based on a 10% compounded growth in the share price over the three-year vesting period, measured with reference to the weighted average price per share during the month of the commencement of the allocation plus dividends over the three-year period against the weighted average share price for the month during which the vesting takes place.

The performance criteria for senior managers will be measured at subsidiary level.

The performance conditions for the twelfth, thirteenth and fourteenth award grant vesting on 31 August 2022, 31 August 2023 and 31 August 2024 respectively are as follows:

		Group long-term incentive (LTI) metrics*		
		Threshold	Target	Stretch
Core HEPS (30%) (compounded cumulatively over three years)	Group	CPI + 5%	CPI + 10%	CPI + 15%
	Vesting %	21.6%	30.0%	42.0%
Total shareholder return (TSR) (30%) (performance against JSE Capped All Share Index)	Group	Greater than or equal to JSE Capped All Share Index	JSE Capped All Share Index	JSE Capped All Share Index
	Vesting %	21.6%	30.0%	42.0%
Return on capital employed (ROCE)** (20%) (compared to weighted average cost of capital (WACC) over the three-year period not compounded)	Group	ROCE greater than or equal to WACC over three years	ROCE greater than or equal to WACC +2.5% over three years	ROCE greater than or equal to WACC +5% over three years
	Vesting %	14.4%	20.0%	28.0%
Environmental, social and governance (ESG) (20%) (specific ESG metrics)	Group	Specific ESGs selected	Specific ESGs selected	Specific ESGs selected
	Vesting %	14.4%	20.0%	28.0%

* Remco may review metrics and targets post-FY2022 for new awards to ensure that they are relevant. The LTI is calculated per objective. Values awarded will be a weighted average of scores attained versus target and pro-rated as the case may be.

** ROCE is calculated using the following formula:

ROCE = Net operating profit (EBIT)/Capital employed. Capital employed = total assets – current liabilities (excluding interest-bearing borrowings). The Remuneration Committee will review any prior year impairments to assess if adverse outcomes have occurred, and if so, make the necessary adjustments to the capital employed number such that the average performance is a more accurate indication to shareholders over the measurement period.

Critical accounting estimates and assumptions

In determining the number of forfeitable shares that will vest due to performance conditions being met, management assesses the attrition rates of staff based on the grades of staff that have been granted awards as well as the historic staff turnover.

Notes to the Group annual financial statements continued

for the year ended 31 May 2022

5. Employees continued

5.1 Equity compensation benefit continued

Movements in the number of forfeitable shares outstanding during the year are as follows:

	Grant date	Vesting date	Number of shares	Fair value of grant R'000
At 31 May 2020			23 370 753	101 911
10th award			1 401 656	25 917
11th award			4 332 402	31 020
12th award			17 636 695	44 974
Granted during the year			14 611 406	46 756
13th award	1 September 2020	31 August 2023	14 611 406	46 756
Shares forfeited during the year			(2 517 085)	(20 201)
10th award			(755 449)	(13 968)
11th award			(377 593)	(2 704)
12th award			(1 384 043)	(3 529)
Shares vested during the year			(1 174 045)	(13 774)
10th award		31 August 2020	(646 207)	(11 949)
11th award		31 August 2020	(36 541)	(262)
11th award		31 March 2021	(46 417)	(332)
12th award		31 August 2020	(108 758)	(277)
12th award		31 March 2021	(187 059)	(477)
13th award		31 March 2021	(149 063)	(477)
At 31 May 2021			34 291 029	114 692
11th award			3 871 851	27 722
12th award			15 956 835	40 691
13th award			14 462 343	46 279
Granted during the year			8 717 136	55 964
14th award	6 April 2022	31 August 2024	8 717 136	55 964
Shares forfeited during the year			(5 245 249)	(25 594)
11th award			(2 419 789)	(17 326)
12th award			(1 190 058)	(3 035)
13th award			(1 635 402)	(5 233)
Shares vested during the year			(1 452 062)	(10 396)
11th award		16 March 2022	(1 452 062)	(10 396)
At 31 May 2022			36 310 854	134 666
12th award			14 766 777	37 656
13th award			12 826 941	41 046
14th award			8 717 136	55 964

Refer to note 5.2 for the expense recognised in the income statement relating to the equity compensation benefits.

The fair value of the shares is based on the open market closing price at grant date.

The total number of forfeitable shares issued to Executive Directors during the period is 2 032 567 (2021: 3 847 014).

The share-based payment expense in relation to these Executive Directors is R11.2 million (2021: R6.9 million). Refer to note 5.3 for details of awards per Director.

5. Employees continued

5.2 Employee compensation benefit expense

(a) Equity compensation benefit

The Group operates an equity-settled forfeitable share incentive plan, under which the entity receives services from employees as consideration for equity instruments of the Group. The fair value of the services received in exchange for the grant of forfeitable shares is recognised as an expense. The total amount to be expensed is determined by the fair value of the forfeitable shares granted. The total amount expensed is recognised over the vesting period, which is the period over which all of the vesting conditions are to be satisfied. At each reporting date, the entity recognises the impact of any shares that have been forfeited prior to the end of the vesting period, if any, in the income statement with a corresponding adjustment to equity.

(b) Bonus plans

The Group recognises a liability and an expense for bonuses. A liability is recognised where the Group is contractually obliged or where there is a past practice that has created a constructive obligation.

The bonus expense is determined based on individual subsidiary CEO recommendation of an employee and Remuneration Committee approval as well as other non-financial measures.

In terms of the Group remuneration policy, the Joint Chief Executive Officers may earn an annual incentive bonus of up to 150% of fixed remuneration, and other Executive Directors of up to 100%. Senior Management may earn up to 75% of their annualised fixed salary package.

	2022 R'000	2021 R'000
Salaries and wages	616 227	527 391
Bonuses	130 180	81 720
Equity compensation benefit	32 278	27 823
Other	1 570	453
	780 255	637 387

Average number of employees for the year is 1 557 (2021: 1 635).

Notes to the Group annual financial statements continued

for the year ended 31 May 2022

5. Employees continued

5.3 Directors' emoluments

	Blue Label Services as Directors of Blue Label Telecoms Limited R'000	Other benefits R'000	Subtotal R'000	Services as Directors of subsidiaries of Blue Label Telecoms Limited R'000
For the year ended 31 May 2022				
Executive Directors				
BM Levy	—	—	—	—
MS Levy	—	—	—	—
DA Suntup	—	—	—	—
	—	—	—	—
Non-Executive Directors				
LM Nestadt	2 191	—	2 191	—
KM Ellerine	679	250	929	—
GD Harlow	1 262	250	1 512	497
JS Mthimunya	1 137	250	1 387	60
SJ Vilakazi	979	250	1 229	—
PL Zim	586	250	836	21
NP Mnxasana	697	250	947	—
	7 531	1 500	9 031	578
	7 531	1 500	9 031	578
Prescribed officers				
GB Levin	—	—	—	—
JS Newman	—	—	—	—
	—	—	—	—
	7 531	1 500	9 031	578
For the year ended 31 May 2021				
Executive Directors				
BM Levy	—	—	—	—
MS Levy	—	—	—	—
DA Suntup	—	—	—	—
	—	—	—	—
Non-Executive Directors				
LM Nestadt	2 067	—	2 067	—
KM Ellerine	640	250	890	—
GD Harlow	1 191	250	1 441	449
JS Mthimunya	1 073	250	1 323	56
SJ Vilakazi	792	250	1 042	—
PL Zim	256	—	256	—
NP Mnxasana	462	—	462	—
	6 481	1 000	7 481	505
	6 481	1 000	7 481	505

The fair value of forfeitable shares per Director has been included.

No Director has a notice period of more than one year.

No Director's service contract includes predetermined compensation as a result of termination that would exceed one year's salary and benefits.

Salary and allowances from subsidiaries R'000	Bonuses and performance-related payments R'000	Restraint of trade payments from subsidiaries R'000	Other benefits from subsidiaries R'000	Total R'000	Fair value of forfeitable shares R'000
10 317	12 793	1 391	36	24 537	23 830
10 317	12 793	1 391	36	24 537	23 830
5 464	4 645	—	—	10 109	12 621
26 098	30 231	2 782	72	59 183	60 281
—	—	—	—	2 191	—
—	—	—	—	929	—
—	—	—	—	2 009	—
—	—	—	—	1 447	—
—	—	—	—	1 229	—
—	—	—	—	857	—
—	—	—	—	947	—
—	—	—	—	9 609	—
26 098	30 231	2 782	72	68 792	60 281
4 689	3 282	—	192	8 163	7 104
3 262	2 280	—	—	5 542	1 000
7 951	5 562	—	192	13 705	8 104
34 049	35 793	2 782	264	82 497	68 385
9 509	9 733	3 338	224	22 804	17 839
9 526	9 733	3 338	207	22 804	17 839
4 931	3 608	—	224	8 763	9 448
23 966	23 074	6 676	655	54 371	45 126
—	—	—	—	2 067	—
—	—	—	—	890	—
—	—	—	—	1 890	—
—	—	—	—	1 379	—
—	—	—	—	1 042	—
—	—	—	—	256	—
—	—	—	—	462	—
—	—	—	—	7 986	—
23 966	23 074	6 676	655	62 357	45 126

Notes to the Group annual financial statements continued

for the year ended 31 May 2022

5. Employees continued

5.3 Directors' emoluments continued

	Issue date	Issue price R	Vesting date
Forfeitable share scheme			
For the year ended 31 May 2022			
Executive Directors			
BM Levy	1 September 2018	7.16	16 March 2022
BM Levy	18 November 2019	2.55	31 August 2022
BM Levy	1 September 2020	3.20	31 August 2023
BM Levy	6 April 2022	6.42	31 August 2024
MS Levy	1 September 2018	7.16	16 March 2022
MS Levy	18 November 2019	2.55	31 August 2022
MS Levy	1 September 2020	3.20	31 August 2023
MS Levy	6 April 2022	6.42	31 August 2024
DA Suntup	1 September 2018	7.16	16 March 2022
DA Suntup	18 November 2019	2.55	31 August 2022
DA Suntup	1 September 2020	3.20	31 August 2023
DA Suntup	6 April 2022	6.42	31 August 2024
Prescribed officers			
GB Levin	1 September 2018	7.16	16 March 2022
GB Levin	18 November 2019	2.55	31 August 2022
GB Levin	1 September 2020	3.20	31 August 2023
GB Levin	6 April 2022	6.42	31 August 2024
JS Newman	6 April 2022	6.42	31 August 2024
Forfeitable share scheme per Director			
For the year ended 31 May 2021			
BM Levy	1 September 2017	18.49	31 August 2020
BM Levy	1 September 2018	7.16	31 August 2021
BM Levy	18 November 2019	2.55	31 August 2022
BM Levy	1 September 2020	3.20	31 August 2023
MS Levy	1 September 2017	18.49	31 August 2020
MS Levy	1 September 2018	7.16	31 August 2021
MS Levy	18 November 2019	2.55	31 August 2022
MS Levy	1 September 2020	3.20	31 August 2023
DA Suntup	1 September 2017	18.49	31 August 2020
DA Suntup	1 September 2018	7.16	31 August 2021
DA Suntup	18 November 2019	2.55	31 August 2022
DA Suntup	1 September 2020	3.20	31 August 2023

Awards outstanding as at the beginning of the year	Number of shares awarded during the year	Awards forfeited during the year	Awards vested during the year	Balance as at the end of the year
448 843	—	(299 244)	(149 599)	—
1 908 425	—	—	—	1 908 425
1 520 776	—	—	—	1 520 776
—	803 501	—	—	803 501
3 878 044	803 501	(299 244)	(149 599)	4 232 702
448 843	—	(299 244)	(149 599)	—
1 908 425	—	—	—	1 908 425
1 520 776	—	—	—	1 520 776
—	803 501	—	—	803 501
3 878 044	803 501	(299 244)	(149 599)	4 232 702
237 725	—	(158 491)	(79 234)	—
1 010 776	—	—	—	1 010 776
805 462	—	—	—	805 462
—	425 565	—	—	425 565
2 053 963	425 565	(158 491)	(79 234)	2 241 803
75 419	—	(22 626)	(52 793)	—
318 400	—	—	—	318 400
328 125	—	—	—	328 125
—	615 300	—	—	615 300
721 944	615 300	(22 626)	(52 793)	1 261 825
—	177 570	—	—	177 570
—	177 570	—	—	177 570
163 970	—	(109 319)	(54 651)	—
448 843	—	—	—	448 843
1 908 425	—	—	—	1 908 425
—	1 520 776	—	—	1 520 776
2 521 238	1 520 776	(109 319)	(54 651)	3 878 044
163 970	—	(109 319)	(54 651)	—
448 843	—	—	—	448 843
1 908 425	—	—	—	1 908 425
—	1 520 776	—	—	1 520 776
2 521 238	1 520 776	(109 319)	(54 651)	3 878 044
86 845	—	(57 900)	(28 945)	—
237 725	—	—	—	237 725
1 010 776	—	—	—	1 010 776
—	805 462	—	—	805 462
1 335 346	805 462	(57 900)	(28 945)	2 053 963

Notes to the Group annual financial statements continued

for the year ended 31 May 2022

6. Equity

6.1 Share capital

Ordinary shares are classified as equity and the shares are fully paid up.

Shares acquired by Blue Label Telecoms for its own employees' equity compensation benefit scheme, as well as the shares procured by the subsidiaries in terms of this scheme, are accounted for as treasury shares in the Group statement of financial position.

	2022 Number of shares	2021 Number of shares
Authorised		
Total authorised share capital of ordinary shares (no par value)	2 000 000 000	2 000 000 000
Issued		
Balance at the beginning of the year	876 772 658	890 001 906 [#]
Shares acquired during the year	(1 442 247)	(14 403 293) [#]
Shares vested during the year	1 452 062	1 174 045
Balance at the end of the year	876 782 473	876 772 658 [#]
Total number of shares in issue	913 655 874	913 655 874
Treasury shares	(36 873 401)	(36 883 216)

[#] The prior year figures have been restated to correctly account for a number of shares that were bought and issued by the Group in terms of the forfeitable share scheme, which had an inconsequential impact on the weighted average number of shares. Refer to note 1.5.

All issued shares are fully paid up.

The Company acquired 1 955 484 (2021: 15 072 808) shares at an average price of R6.48 (2021: R3.06) on the JSE in order to grant forfeitable shares to employees and Directors as part of the Group's forfeitable share plan. Of the total shares acquired, 1 442 247 (2021: 14 403 293) related to shares awarded to employees of subsidiary companies in terms of the equity-settled forfeitable share plan, which are held as treasury shares and accounted for against share premium. The remaining shares of 513 237 (2021: 669 515) related to shares awarded to employees of associate companies in terms of their cash-settled forfeitable share plan and are not considered to be treasury shares of the Group.

The amount paid to acquire the treasury shares was R9.3 million (2021: R43.9 million) and has been deducted from shareholders' equity.

Refer to note 5.1 for details on the forfeitable shares.

6. Equity continued

6.2 Other reserves

	2022 R'000	2021 R'000
Balance at the beginning of the year	(2 732 783)	(2 689 960)
Exchange differences on translation of foreign operations	1 251	(61 364)
Transactions with non-controlling interests*	(166 094)	—
Equity compensation benefit scheme shares vested	(9 954)	(13 471)
Equity compensation benefit movement	30 446	27 184
Gain arising on changes in fair value of hedging instruments (effective portion), net of tax	7 627	5 581
Loss on hedging instrument reclassified to profit or loss, net of tax	(1 930)	(753)
Balance at the end of the year	(2 871 437)	(2 732 783)
Consisting of:		
Restructuring reserve	(1 843 912)	(1 843 912)
Foreign currency translation reserve	34 009	32 758
Non-distributable reserve	7 771	7 771
Transactions with non-controlling interest reserve	(1 145 160)	(979 066)
Equity compensation benefit reserve	65 330	44 838
Cash flow hedge reserve	10 525	4 828
	(2 871 437)	(2 732 783)

* On 29 June 2021, The Prepaid Company Proprietary Limited acquired the remaining 52% shareholding in Glozell Distribution Proprietary Limited.

The restructuring reserve arose as a result of the restatement of Group comparatives, as required in terms of the principles of predecessor accounting. This reserve represents the difference between the fair value of the entities under the Group's control and their respective net asset values, as at the assumed restructure date of 1 June 2006.

The non-distributable reserve arose as a result of BLT's share of share premium issued by associate companies pre-2010.

The transactions with non-controlling interest reserve relate to the excess payments over the carrying amounts arising on transactions with non-controlling shareholders as these are treated as equity participants.

The cash flow hedge reserve arose in the prior year. The Prepaid Company (TPC) entered into a ZAR-denominated floating rate debt instrument and is exposed to variability in interest payments as a result of interest rate fluctuations. To hedge this interest rate risk, TPC took out a pay-fixed, receive-floating interest rate swap instrument. The type of hedging relationship is a cash flow hedge. Refer to note 3.8 for more details.

On 29 June 2021, The Prepaid Company acquired an additional 52% shareholding in Glozell Distribution for a total purchase consideration of R137 million, of which R126 million was discharged by way of a conversion of debt owing by Glozell Proprietary Limited, the owners of 40% of the company, to The Prepaid Company. The remaining 12% was acquired by The Prepaid Company for R11 million. Over and above the cost of acquisition of 52% of Glozell Distribution by The Prepaid Company, the latter assumed Glozell Proprietary Limited's obligation of R105 million to Investec Bank Limited.

Notes to the Group annual financial statements continued

for the year ended 31 May 2022

7. Taxation

7.1 Income tax expense

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at year-end in the countries where the Company's subsidiaries, associates and joint ventures operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

Uncertain tax positions are considered by the Group at the level of the individual uncertainty or group of related uncertainties.

Critical accounting estimates and assumptions

There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Amounts accrued are based on management's interpretation of country-specific tax law and the likelihood of settlement. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets are recognised to the extent that it is probable that taxable income will be available in the future against which these can be utilised. Future taxable income is estimated based on business plans which include estimates and assumptions regarding economic growth, interest rates, inflation and competitive forces.

	2022 R'000	2021 R'000
Current tax	225 841	199 720
Current year	224 551	199 907
Adjustment in respect of prior years	1 290	(187)
Deferred tax	93 671	58 939
Current year	94 293	58 874
Adjustment in respect of prior years	(622)	65
Transfer from other comprehensive income	750	293
Income tax expense	320 262	258 952
Total taxation is attributable to:		
Profit from continuing operations	320 262	249 416
Profit from discontinued operations	—	9 536
	320 262	258 952

7. Taxation continued**7.1 Income tax expense** continued

	2022		2021	
	R'000	%	R'000	%
Profit from continuing operations before tax	1 412 259		1 102 111	
Profit from discontinued operations before tax	—		34 858	
Profit before tax	1 412 259		1 136 969	
Tax at 28%	395 433	28.0	318 351	28.0
Loss on liquidity support not deductible	—	—	(5 435)	(0.5)
Expenditure of a capital nature	3 947	0.3	2 420	0.2
Financial guarantee contracts	—	—	(24 287)	(2.1)
Recycling of foreign currency translation reserve on sale of joint venture	—	—	(14 711)	(1.3)
Profit on disposal of joint venture	—	—	(7 547)	(0.7)
Interest receivable impaired in prior years written off	—	—	(25 188)	(2.2)
ECL movement on loans receivable	(111)	(0.0)	(17 529)	(1.5)
Receipt of contingent consideration	(12 831)	(0.9)	—	—
Fair value adjustments to derivative liability	(12 930)	(0.9)	—	—
Learnership allowances	(32 617)	(2.3)	—	—
Employment tax incentive	(10 687)	(0.8)	—	—
Surety loan fair value adjustment	3 600	0.3	5 912	0.5
Other income not subject to tax	(16 091)	(1.1)	(8 483)	(0.7)
Other expenses not deductible for tax purposes	13 003	0.9	1 549	0.1
Tax effect of assessed losses not recognised	691	0.0	45 378	4.0
Utilisation of previously unrecognised assessed losses	(2 101)	(0.1)	(10 823)	(1.0)
Share of profits from associates and joint ventures (refer to note 2.1)	(2 252)	(0.2)	(826)	(0.1)
Adjustment in respect of prior years	668	0.0	(122)	(0.0)
Effect of tax rate changes*	(8 210)	(0.6)	—	—
Transfer from OCI	750	0.1	293	0.0
Tax charge	320 262	22.7	258 952	22.7
Effective tax rate	22.7%		22.7%	

* The Group's deferred tax liabilities (or assets if applicable) have been adjusted by applying the newly enacted 27% corporate tax rate (2021: 28%), which becomes effective for the financial year ending 31 May 2023. The Group's deferred tax expense for the financial year ending 31 May 2022 is net of the credit as a result of the tax rate change.

Notes to the Group annual financial statements continued

for the year ended 31 May 2022

7. Taxation continued

7.2 Deferred taxation

Deferred taxation is provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes.

However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by year-end and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Critical accounting estimates and assumptions

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

	Capital allowances R'000	Purchase price allocations and fair value gains* R'000	Provisions R'000	Tax losses R'000	Prepay- ments R'000	Unrealised foreign exchange differences R'000	Other R'000	Total R'000
At 31 May 2020	338	109 562	(35 914)	(33 047)	5 756	23 749	(12 813)	57 631
Charged/(credited) to the income statement	172 750	(12 139)	(16 158)	(68 271)	(2 980)	(23 749)	9 486	58 939
Charged to other comprehensive income	—	—	—	—	—	—	2 928	2 928
At 31 May 2021	173 088	97 423	(52 072)	(101 318)	2 776	—	(399)	119 498
Charged/(credited) to the income statement	181 138	(27 193)	(48 598)	(31 051)	6 032	—	21 367	101 695
Charged to other comprehensive income	—	—	—	—	—	—	3 726	3 726
Tax rate change	(12 654)	(2 494)	2 956	4 561	(185)	—	(446)	(8 262)
At 31 May 2022	341 572	67 736	(97 714)	(127 808)	8 623	—	24 248	216 657

* These relate to intangible assets included in note 4.2.

7. Taxation continued**7.2 Deferred taxation** continued

	2022 R'000	2021 R'000
Deferred tax asset comprises:		
Capital allowances	(183)	(358)
Provisions	(97 714)	(52 072)
Tax losses	(127 808)	(101 318)
Other	(6 402)	(12 523)
Total deferred tax asset	(232 107)	(166 271)
Deferred tax liability comprises:		
Capital allowances	341 755	173 446
Purchase price allocations and fair value gains	67 736	97 423
Prepayments	8 623	2 776
Other	30 650	12 124
Total deferred tax liability	448 764	285 769
Net deferred tax	216 657	119 498
The analysis of deferred tax assets and deferred tax liabilities is as follows:		
Deferred tax assets		
Deferred tax assets to be recovered after more than 12 months	(6 221)	(8 344)
Deferred tax assets to be recovered within 12 months	(77 031)	(66 678)
Net deferred tax asset	(83 252)	(75 022)
Deferred tax liabilities		
Deferred tax liabilities to be recovered after more than 12 months	230 146	114 272
Deferred tax liabilities to be recovered within 12 months	69 763	80 248
Net deferred tax liability	299 909	194 520
Net deferred tax	216 657	119 498

Where deferred tax assets have been recognised in respect of entities which have incurred losses in the current or prior years, a formal process of assessment of the future profitability of the entity has been performed based on detailed budgets and cash flow forecasts. As a result, management believes that the current tax losses will be utilised within one to five years.

Deferred tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of R47.9 million (2021: R51.4 million) in respect of losses amounting to R177.5 million (2021: R183.5 million) that can be carried forward against future taxable income.

There is no withholding tax that would be payable on any dividends received from the Group's equity-accounted associates and joint ventures and therefore no deferred tax has been raised in this regard.

Notes to the Group annual financial statements continued

for the year ended 31 May 2022

8. Related parties

Transactions and balances with related parties:

	Sales to related parties		Purchases from related parties	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
Blue Label Mexico S.A. de C.V.* ¹	—	1 406	—	—
Blue Train Proprietary Limited*	—	—	13 631	—
Cell C Limited and its related entities*	3 975 162	1 729 573	6 624 066	4 275 098
Ellerine Bros. Proprietary Limited	—	—	—	161
I Talk 2U Proprietary Limited*	218	—	217	—
I Talk Financial Services Proprietary Limited*	5 924	3 645	2 452	651
I Talk Holdings Proprietary Limited*	28 192	23 756	42 542	12 935
i-Crypto Incorporated*	70	121	—	—
Melrose Motor Investments Proprietary Limited	—	—	—	10
Mobii Systems Proprietary Limited and its related entities*	480	48	2 111	—
Moneyline 311 Proprietary Limited	—	—	4 201	3 720
Prepaid24 Proprietary Limited* ¹	—	8 832	—	—
T3 Telecoms SA Proprietary Limited*	3 619 973	3 394 108	20 561	14 154
Unihold Group Proprietary Limited	3	83	—	—
Utilities World Proprietary Limited*	3 803	—	1 017	—
Uvongo Falls No 26 Proprietary Limited	—	—	1 314	1 445
	7 633 825	5 161 572	6 712 112	4 308 174

	Income received from related parties		Expenses paid to related parties	
	R'000	R'000	R'000	R'000
Other income received from related parties				
Blue Train Proprietary Limited*	501	—	—	—
I Talk Holdings Proprietary Limited*	—	157	—	—
Mobii Systems Proprietary Limited and its related entities*	—	480	—	—
Dividends received from related parties				
I Talk Holdings Proprietary Limited*	—	14 000	—	—
Utilities World Proprietary Limited*	5 885	—	—	—
Interest received from related parties				
Blue Train Proprietary Limited*	103	—	—	—
I Talk Holdings Proprietary Limited*	910	146	—	—
Prepaid24 Proprietary Limited* ¹	—	69	—	—
T3 Telecoms SA Proprietary Limited*	1 470	977	—	—
Utilities World Proprietary Limited*	2 237	—	—	—
Wozza Airtime Proprietary Limited*	25	—	—	—
Finance revenue from related parties				
Cell C Limited and its related entities*	96 788	95 951	—	—
Management fees received from related parties				
I Talk Holdings Proprietary Limited*	2 774	2 580	—	—
T3 Telecoms SA Proprietary Limited*	965	325	—	—
Trust Blu Foundation	876	—	—	—
Rent received from related parties				
T3 Telecoms SA Proprietary Limited*	1 287	412	—	—
Interest paid to related parties				
I Talk Holdings Proprietary Limited*	—	—	3	546
Rent paid to related parties²				
Ellerine Bros. Proprietary Limited	—	—	9 826	9 098
Moneyline 311 Proprietary Limited	—	—	9 826	9 098
Uvongo Falls No 26 Proprietary Limited	—	—	10 228	9 376
	113 821	115 097	29 883	28 118

* These entities are associates/joint ventures. For further details in this regard, refer to note 2.1.

¹ Prepaid24 Proprietary Limited and Blue Label Mexico S.A. de C.V. were disposed of during the prior year. Transactions with both were disclosed up until the date of sale.

² Included in the rental payments is the unwinding of the lease liability.

8. Related parties continued

	Loans to related parties		Loans from related parties	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
2DFine Holdings Mauritius*^	—	196 513	—	—
2DFine Investments Mauritius*^	—	3 318	—	—
Oxygen Services India Private Limited*^	—	45 908	—	—
Blue Train Proprietary Limited*	4 116	—	—	—
Brett Levy	48 286	41 857	—	—
Mark Levy	48 286	41 857	—	—
I Talk Financial Services Proprietary Limited*	8 000	8 000	—	—
I Talk Holdings Proprietary Limited*	18 900	2 000	—	270
T3 Telecoms SA Proprietary Limited*	14 682	15 016	—	—
Wozza Airtime Proprietary Limited*	4 078	—	—	—
Total loss allowance on loans to related parties	(1 173)	(247 992)	—	—
	145 175	106 477	—	270

	Lease asset due from related parties		Lease liability due to related parties	
	R'000	R'000	R'000	R'000
Ellerine Bros. Proprietary Limited	—	—	10 059	18 419
Moneyline 311 Proprietary Limited	—	—	10 059	18 419
Uvongo Falls No 26 Proprietary Limited	—	—	10 257	18 859
	—	—	30 375	55 697

	Amounts due from related parties included in trade receivables		Amounts due to related parties included in trade payables	
	R'000	R'000	R'000	R'000
Blue Train Proprietary Limited*	1 598	—	1 207	—
Cell C Limited and its related entities*	2 612 065	1 677 193	851 473	456 902
I Talk 2U Proprietary Limited*	21	—	—	—
I Talk Financial Services Proprietary Limited*	1 758	2 855	626	204
I Talk Holdings Proprietary Limited*	10 031	4 775	3 123	3 706
i-Crypto Incorporated*	420	—	—	—
Mobii Systems Proprietary Limited and its related entities*	120	782	419	2
Oxygen Services India Private Limited*#	5 876	5 876 ³	—	—
T3 Telecoms SA Proprietary Limited*	9 687	3 879	—	—
Unihold Group Proprietary Limited	—	590	—	—
Utilities World Proprietary Limited*	2 864	—	646	—
Uvongo Falls No 26 Proprietary Limited	—	—	525	—
Total loss allowance on trade receivables to related parties	(32 575)	(10 931)	—	—
	2 611 865	1 685 019	858 019	460 814

* These entities are associates/joint ventures. For further details in this regard, refer to note 2.1.

This amount has been fully provided for both in the current and prior year and are included as part of the total loss allowance.

^ These loans have been written off in the current year. In the prior year, they were fully provided for and included as part of the total loss allowance.

³ In the prior year, the loan to Oxygen Services India Private Limited was incorrectly disclosed on a net basis. This has been corrected to show the gross amount and expected credit loss separately.

Notes to the Group annual financial statements continued

for the year ended 31 May 2022

8. Related parties continued

	Amounts due from related parties included in other receivables		Amounts due to related parties included in other payables	
	2022 R'000	2021 R'000	2022 R'000	2021 R'000
I Talk Holdings Proprietary Limited*	—	—	—	1 572
Utilities World Proprietary Limited*	5 885	—	—	—
Blue Train Proprietary Limited*	—	—	854	—
	5 885	—	854	1 572

* These entities are associates/joint ventures. For further details in this regard, refer to note 2.1.

Certain related party disclosure is required as a result of common directorships.

For details of emoluments to Directors, refer to note 5.3. For details of equity compensation benefit expense in respect of Directors, refer to note 5.1. The Executive Directors of the Company are regarded as key management of the Group.

For details of the shareholdings in the Company, refer to the Directors' report.

9. Subsequent events

Banking facilities

In August 2022, The Prepaid Company renegotiated a further extension of its Investec facility to 30 September 2023. The Investec facility available to The Prepaid Company at year-end is required to reduce by R120 million to R1.005 billion as at 30 September 2022. At 31 May 2022 the Investec facility is disclosed as current borrowings, as the extension to 30 September 2023, was only granted in August 2022.

Update on Cell C

Refer to note 2(e) for details in this regard.

10. Accounting framework

10.1 Basis of preparation

The principal accounting policies applied in the preparation of the Group annual financial statements are in the related notes and are consistent with those adopted in the prior year, unless otherwise specified.

The Group annual financial statements have been prepared in accordance with IFRS, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the JSE Listings Requirements and the Companies Act.

The term IFRS includes International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC). The standards referred to are set by the International Accounting Standards Board (IASB).

The Group annual financial statements are prepared under the historical cost convention, adjusted for financial instruments measured at fair value through profit or loss and assets held-for-sale measured at fair value less costs to sell. Amounts are rounded to the nearest thousand with the exception of earnings per share, ordinary share capital and equity compensation benefit. The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in the notes to which they relate.

10. Accounting framework continued

10.2 Going concern

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within its current funding levels into the foreseeable future.

Refer to note 3.2 for a description of the Group's facilities and covenants.

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources and facilities to continue in operational existence for the foreseeable future and is not at risk of breaching its covenants. The Group therefore continues to adopt the going concern basis in preparing the financial statements.

10.3 Standards, amendments and interpretations not yet effective

The standards, interpretations and amendments listed below will only be effective in future reporting periods. It is expected that the Group will adopt the pronouncements on their respective effective dates. The amendments are not expected to have a material impact on the Group.

Standards, interpretations and amendments issued but not effective	Effective date
IFRS 3 (Business Combinations) Asset or liability in a business combination clarity	Year ending 31 May 2023
IFRS 16 (Leases) Amendments to illustrative example 13 that accompanies IFRS 16 to remove the illustration of payments from the lessor relating to leasehold improvements	Year ending 31 May 2023
IFRS 9 (Financial Instruments) Fees in the 10 percent test for derecognition of financial liabilities	Year ending 31 May 2023
IAS 16 (Property, Plant and Equipment) Proceeds before intended use	Year ending 31 May 2023
IFRS 17 (Insurance Contracts) Amendments to address concerns and implementation challenges that were identified after IFRS 17 was published	Year ending 31 May 2024
IAS 1 (Presentation of Financial Statements) 'Presentation of Financial Statements' on Classification of Liabilities as Current or Non-current	Year ending 31 May 2025
IAS 37 (Provisions, Contingent Liabilities and Contingent Assets) Onerous Contracts – Costs of Fulfilling a Contract	Year ending 31 May 2023
IAS 12 (Income Taxes) Amendments regarding deferred tax related to assets and liabilities arising from a single transaction	Year ending 31 May 2024
Narrow scope amendments to IAS 1 'Presentation of Financial Statements', Practice statement 2 and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'	Year ending 31 May 2024

Notes to the Group annual financial statements continued

for the year ended 31 May 2022

10. Accounting framework continued

10.4 Other accounting policies

Foreign currencies

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The Group financial statements are presented in South African rand (R), which is the functional and presentation currency of the parent company.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement in operating profit.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing rate as at statement of financial position date;
- income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as the foreign entity's assets and liabilities and are translated at the closing rate.

Dividend tax

Dividend tax is provided for at 20% of the amount of any dividend paid, subject to certain exemptions. The dividend tax is a tax borne by the beneficial owner of the dividend and will be withheld by either the issuer of the dividend or by regulated intermediaries.

Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which they are approved by the shareholders.

Distributions of non-cash assets received from subsidiary companies are recognised as a dividend at the fair value of the non-cash assets received.

11. Discontinued operations

Accounting policy

A discontinued operation is a component of the entity that has been disposed of or is classified as held-for-sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the income statement.

Description

Closure of WiConnect

While management had implemented a turnaround strategy at WiConnect (a fully owned subsidiary of the Group), which incorporated the strengthening of the retail management team, a refocus of product sales as well as negotiating additional rebates from the network operators and original equipment manufacturers, Covid-19 had a significant negative impact on the retail operations of WiConnect. These included increased costs of inventories as a result of a weaker rand, periods of non-trading as a result of the nationwide lockdown and consumers foregoing discretionary purchases. Given the uncertainty of the tenure of the pandemic and the resultant losses attributable thereto impacting its financial feasibility, a decision was made on 11 May 2020 to cease the operations of the WiConnect retail stores.

11. Discontinued operations continued

Description continued

Closure of WiConnect continued

Significant management judgement was applied in determining whether WiConnect is a discontinued operation by assessing whether it had effectively been ceased to be used or abandoned by 31 May 2020 and also whether it represented a separate major line of business or geographical area of operations or was part of a single plan to dispose of a separate major line of business or geographical area of operations. For further information regarding management's considerations in concluding that WiConnect was a discontinued operation, please refer to the information under Critical accounting judgements and assumptions.

The above assessment was still applicable in the prior financial year. The costs incurred and revenues earned post the 31 May 2020 year-end were all elements of the winding down of the WiConnect operations. In the prior year, management had negotiated terms with substantially all landlords resulting in significant savings on lease liability costs that were accounted for as modifications to the lease terms. These modifications were recorded in the "Profit from discontinued operation" line item within the Group statement of comprehensive income.

Management has substantially collected outstanding debt owed to WiConnect from its trade receivables and settled trade and other sundry creditors. As such, the discontinued operation has effectively been wound down.

Financial information relating to the various discontinued operations is set out below:

	WiConnect 1 June 2021 – 31 May 2022 R'000	WiConnect 1 June 2020 – 31 May 2021 R'000
Revenue and other income	—	67 752
Expenses	—	(32 895)
Profit before taxation	—	34 857
Taxation	—	(9 536)
Profit after taxation of discontinued operations	—	25 321
Other comprehensive income from discontinued operations	—	—
Total comprehensive income from discontinued operations	—	25 321
Profit for the period attributable to:	—	25 321
Equity holders of the parent	—	25 321
Non-controlling interest	—	—
Total comprehensive income for the period attributable to:	—	25 321
Equity holders of the parent	—	25 321
Non-controlling interest	—	—

	WiConnect 1 June 2021 – 31 May 2022 R'000	WiConnect 1 June 2020 – 31 May 2021 R'000
Net cash inflow from ordinary activities	—	4 941
Net cash inflow from investing activities	—	530
Net increase in cash generated by the discontinued operations	—	5 471

Notes to the Group annual financial statements continued

for the year ended 31 May 2022

11. Discontinued operations continued

Critical accounting judgements and assumptions

WiConnect discontinued operation considerations

Paragraph 13 of IFRS 5 states that, if a disposal group meets the discontinued operation criteria, the cash flows and results of the disposal group should be presented as discontinued operations at the date on which it ceases to be used. In considering whether the operations of WiConnect have “ceased to be used”, management considered that as at year-end, and for some time prior, WiConnect’s retail stores had ceased trading (even during the periods of the national lockdown where trading was permissible). Furthermore, all inventory had been transferred to a central warehouse, cash collected and swept from stores and affected staff informed of their retrenchment. Additionally, all landlords to the WiConnect retail stores were also informed prior to year-end of the intention to cease all operations. Therefore, while there were still run-off costs to be incurred and assets to be sold and scrapped, these were elements of the closing down of the WiConnect operations. Based on this, together with the fact that inventory had been written down to its net realisable value and sold to one buyer, it was management’s contention that the operations were not ongoing and that the inflows and outflows which were still to occur did not comprise an activity. Based on these facts and circumstances, management applied its judgement and concluded that the operations of WiConnect have “ceased to be used”. In the prior financial year management believes that this assessment was still applicable. As mentioned above, in the current financial year the discontinued operation was effectively wound down.

Management applied further significant judgement in determining whether the operations of WiConnect met the discontinued operations criteria as at 31 May 2020. More specifically, management needed to consider whether WiConnect may have been classified as a separate major line of business. Under IFRS 8, reportable segments could comprise more than one business segment. Therefore, the fact that WiConnect does not form its own reportable segment (it is included in the Africa Distribution segment) did not preclude it from being considered a major line of business. Executive management and chief operating decision-makers considered WiConnect to be a separate major line of business as a result of several considerations, namely that it was brick-and-mortar retail (or physical stores owned and operated by the Group) directly interacting with clients in the retail space through our own channels/stores selling hardware and other value-added services directly to consumers. This, coupled with the loss after tax of R318 million (which was considered to be material in the context of the overall Group results for the year ended 31 May 2020), led to management applying its judgement in concluding that WiConnect was a separate major line of business and consequently met the definition of a discontinued operation. In the prior financial year management believed that this assessment was still applicable. As mentioned above, in the current financial year the discontinued operation was effectively wound down.

Annexure A: Shareholder analysis

Shareholder spread	Number	%	Shares	%
1 – 1 000 shares	7 391	72.10	930 956	0.10
1 001 – 10 000 shares	1 797	17.53	7 186 937	0.79
10 001 – 100 000 shares	750	7.32	24 509 272	2.68
100 001 – 1 000 000 shares	222	2.16	69 678 519	7.63
1 000 001 shares and over	91	0.89	811 350 190	88.80
Totals	10 251	100.00	913 655 874	100.00

Distribution of shareholders	Number	%	Shares	%
Private investor	209	2.04	286 410 983	31.35
Unit trusts	66	0.64	142 014 841	15.54
Corporate holding	4	0.04	140 137 323	15.34
Unclassified	24	0.23	124 183 125	13.59
Hedge fund	3	0.03	41 763 425	4.57
Mutual fund	23	0.22	21 630 549	2.37
Trading position	9	0.09	17 282 730	1.89
Insurance companies	13	0.13	19 658 465	2.15
Custodians	5	0.05	1 033 135	0.11
University	5	0.05	1 958 545	0.22
Exchange-traded fund	4	0.04	3 044 984	0.33
Medical aid scheme	7	0.07	2 556 435	0.28
Venture capital	1	0.01	841 027	0.09
Local authority	1	0.01	860 329	0.09
Investment trust	1	0.01	394 680	0.04
Charity	2	0.02	469 474	0.05
Remainder	9 874	96.32	109 415 824	11.99
Totals	10 251	100.00	913 655 874	100.00

Public/non-public shareholders	Number	%	Shares	%
Non-public shareholders	14	0.14	437 649 597	47.90
Directors and associates	12	0.12	298 790 115	32.70
Strategic holdings (more than 10%)	1	0.01	100 000 000	10.95
Treasury stock	1	0.01	38 859 482	4.25
Public shareholders	10 237	99.86	476 006 277	52.10
Totals	10 251	100.00	913 655 874	100.00

Annexure A: Shareholder analysis continued

Beneficial shareholders holding 2% or more	Shares	%
Shotput Investments (Proprietary) Limited*	100 000 000	10.95
BM Levy	85 197 691	9.32
MS Levy	77 790 283	8.51
Allan Gray Balanced Fund	54 333 040	5.95
Blue Label Telecoms Limited	38 859 482	4.25
Acanthin	31 809 258	3.48
ERZ Telecoms CC	26 943 509	2.95
Government Employees Pension Fund (PIC)	25 146 802	2.75
Centriq Sasol Equity Portfolio	21 548 379	2.36
Totals	461 628 444	50.52

Shareholders holding 2% or more	Shares	%
Allan Gray (Proprietary) Limited	122 562 044	13.41
Shotput Investments (Proprietary) Limited*	100 000 000	10.95
BM Levy	85 197 691	9.32
MS Levy	77 790 283	8.51
Sanlam Investment Management (Proprietary) Limited	47 799 525	5.23
Blue Label Telecoms Limited	38 859 482	4.25
Acanthin	31 809 258	3.48
ERZ Telecoms CC	26 943 509	2.95
MIBFA	25 847 719	2.83
The Vanguard Group Inc	20 734 000	2.27
Old Mutual Investment Group SA	18 792 533	2.07
Totals	596 336 044	65.27

* A discretionary trust, of which Kevin Ellerin is one of a number of potential beneficiaries, holds an interest in Shotput Investments Proprietary Limited. The indirect beneficial shareholding of Kevin Ellerin as disclosed per the Directors' report refers to his effective shareholding in Ellerin Group Proprietary Limited.

Administration

Directors

LM Nestadt (Chairman)*, BM Levy, MS Levy, KM Ellerine**, GD Harlow*, NP Mnxasana*, JS Mthimunye*, DA Suntup, SJ Vilakazi*, PL Zim*

(*Independent Non-Executive) (**Non-Executive)

Company Secretary

J van Eden

Sponsor

Investec Bank Limited

Auditors

PricewaterhouseCoopers Inc.

Blue Label Telecoms Limited

(Incorporated in the Republic of South Africa)
(Registration number 2006/022679/06)

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Instagram: bluelabeltelecoms

YouTube: Blue Label Telecoms

JSE share code

BLU

ISIN

ZAE000109088

(Blue Label or BLT or the Company or the Group)



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