3. Financial instruments and financial risks continued

3.2 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.

Critical accounting estimates and assumptions
Management has assessed the probabilities on the contingent purchase arrangements.

3.2.1 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. If not, they are presented as non-current liabilities.

	2016 R'000	2015 R'000
Trade payables	**2 322 408**	2 671 779
Accruals	**116 240**	70 103
Employee benefits	**70 142**	61 740
Sundry creditors	**16 031**	20 974
Deferred revenue	**2 044**	1 221
Contingent consideration	**83 563**	123 902
VAT	**9 048**	16 675
Payables to related parties (refer to note 8)	**23 144**	7 828
	2 642 620	2 974 222
Less: Amounts included in current portion of trade and other payables	**(2 601 807)**	(2 831 000)
	40 813	143 222

Trade payables are discounted at a discount rate of 10.5% per annum (2015: 9.25% per annum) based on average creditors' days outstanding. The effect of discounting of the trade payables balance amounts to R13.648 million (2015: R18.513 million).

Fair value estimation

Fair value measurement hierarchy:

- Level 1: fair value based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: fair value based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); or
- Level 3: fair value based on inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

3. Financial instruments and financial risks continued

3.2 Financial liabilities continued

3.2.1 Trade and other payables continued

Contingent consideration

Changes in level 3 instruments are as follows:

	2016 R'000	2015 R'000
Opening balance	**123 902**	22 607
Acquisition of Viamedia Proprietary Limited	**—**	84 783
Acquisition of SupaPesa Africa Limited	**—**	29 851
Acquisition of Supa Pesa South Africa Proprietary Limited	**—**	100
Settlements	**(1 931)**	(19 515)
Gains or losses recognised in profit or loss	**(38 408)**	6 076
Closing balance	**83 563**	123 902
Total gains or losses for the period included in profit or loss for liabilities held at the end of the reporting period, under:		
Other income	**(48 120)**	(923)
Interest paid	**9 712**	6 999
Change in unrealised gains or losses for the period included in profit or loss for liabilities held at the end of the reporting period	**9 127**	2 052

The closing balance includes R15.8 million relating to SupaPesa Africa Limited, R65.8 million relating to Viamedia Proprietary Limited and R2 million to other contingent consideration.

Acquisition of SupaPesa Africa Limited

In the prior year, the fair value of the contingent consideration arrangement of R29.9 million was originally estimated by applying the income approach. The fair value estimates are based on a discount rate of 9.25%. For all profit targets management has assumed a probability of 100% initially. In determining these probabilities management has assessed the cash flow projections based on financial budgets for the forthcoming three years which are based on assumptions of the business, industry and economic growth.

In the current year management reassessed the cash flows taking into account the profit targets and the probability of meeting these as well as the forecasted financial budget. The probabilities have been adjusted downwards from 100% to between 32% and 55%. This has resulted in a release of R17.2 million into the income statement, included in other income.

Acquisition of Viamedia Proprietary Limited (Viamedia)

The contingent consideration arrangement requires Blue Label Telecoms Limited to pay in cash the former owner of Viamedia, an additional amount of R215.6 million if certain profit warranties are achieved. The first three amounts of R24.1 million are based on the profits of Viamedia for the year ended 31 May 2015 and 31 May 2016, and ending 31 May 2017. The fourth and fifth amounts of R30.9 million and R112.5 million are based on the profits of Viamedia for the three years ending 31 May 2017.

In the prior year, the fair value of the contingent consideration arrangement of R84.8 million was estimated by applying the income approach. The fair value estimates are based on a discount rate of 9%. For the first, second, third and fourth profit targets management has assumed a probability of 100%. For the fifth profit target management has assumed a probability of 0%. In determining these probabilities management has assessed the cash flow projections based on financial budgets for the forthcoming three years which are based on assumptions of the business, industry and economic growth.

In the current year management reassessed the cash flows taking into account the profit targets and the probability of meeting these as well as the forecasted financial budget. For the first, second and third profit targets, the probabilities have been adjusted downwards from 100% to between 84% and 100%. For the fourth profit target management has assumed a probability of 0%. This has resulted in a release of R30.8 million into the income statement, included in other income.