

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 May 2016

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 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.

	2016 R'000	2015 R'000
Finished goods		
Prepaid airtime	1 473 828	1 400 084
Handsets	158 815	8 683
Other*	26 217	24 337
	1 658 860	1 433 104

*Other inventory mainly consists of starter packs and consumables.

Inventories with a cost of R24.4 billion (2015: R20.4 billion) were sold during the year and have been charged to the income statement.

A general notarial bond is held by Investec Bank Limited over airtime up to R1.5 billion (2015: R1.5 billion).

4.5 Provisions

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

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

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

	Un-redeemed electricity provision R'000	Onerous contracts R'000	Retail platform clawback provision R'000	Total R'000
Opening balance	18 874	2 617	—	21 491
Additions	769 354	—	9 411	778 765
Used during the year	(767 199)	—	(4 997)	(772 196)
Reversed	—	(2 617)	(515)	(3 132)
Closing carrying amount	21 029	—	3 899	24 928

Unredeemed electricity provision

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

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

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

For the year ended 31 May 2016

4. Non-financial instruments continued

4.5 Provisions continued

Onerous contracts

The onerous contracts related to line subscriptions for which the Group was contracted to incur unavoidable charges that were expected to exceed the related economic benefits to be received. A provision was raised due to the uncertainty associated with the amount of net outflow for each subscription.

As at 31 May 2016, the Group holds no line subscriptions that give rise to onerous contracts.

Retail platform clawback provision

The retail platform clawback provision represents the estimated value payable as a clawback on deficient debtors for amounts already received on goods sold through a third-party platform provider.

The provision will be utilised within nine months of the following financial year per the contractual terms of the clawback arrangement.

5. Employees

5.1 Equity compensation benefit

During the year 2 591 066 (2015: 2 937 836) 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. A dividend of 31 cents (2015: 27 cents) per ordinary share was declared on 18 August 2015 (2015: 19 August 2014).

The performance condition of the forfeitable shares for the fifth, sixth, seventh and eighth award vesting on 31 August 2015, 31 August 2016, 31 August 2017 and 31 August 2018 respectively are as follows:

- 40% of the awards are allocated towards retention. In order to receive this portion of the allocation the employee is required to be employed within the Group at the vesting date.
- 60% of the awards are allocated on the basis of 50% for growth in core headline earnings per share and 10% for shareholder returns.

The 50% for growth in core headline earnings will be based on the following achievements:

- If growth is 5% above CPI over three years, 20% of the 50% will vest.
- If growth is 10% above CPI over three years, an additional 50% (i.e. a total of 70%) of the 50% will vest.
- If growth is 25% above CPI over three years, a further 30% (i.e. a total of 100%) of the 50% will vest.

The 50% for growth in core headline earnings in respect of the seventh and eighth awards has been amended to include growth in core headline earnings at subsidiary level with regards to qualifying employees.

The 10% for shareholder return will be 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 and the weighted average share price for the month during which the vesting takes place, plus dividends over the three-year period.

In November 2015 a decision was made to accelerate the vesting of all qualifying employees in Velociti Proprietary Limited in anticipation of the disposal of this Group company. The expense that would have been recognised over the vesting period has been recognised in the income statement in the current year.

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.