

Notes to the Group annual financial statements continued

For the year ended 31 May 2017

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.

	2017 R'000	2016 R'000
Finished goods		
Prepaid airtime	2 067 904	1 473 828
Handsets	84 676	158 815
Other*	27 541	26 217
	2 180 121	1 658 860

* Other inventory mainly consists of starter packs and consumables.

Inventories with a cost of R24.1 billion (2016: R24.4 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 (2016: 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.

	Unredeemed electricity provision R'000	Retail platform clawback provision R'000	Total R'000
Opening balance	21 029	3 899	24 928
Additions	765 901	5 271	771 172
Used during the year	(755 562)	(5 160)	(760 722)
Reversed	—	(307)	(307)
Closing carrying amount	31 368	3 703	35 071

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.

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.