11. PRIOR YEAR ERRORS continued

Put option liability classification continued

Effect on Group income statement (extract)	31 May 2018 (as previously reported) R'000	31 May 2018 (restated) R'000	Difference R'000	31 May 2017 (as previously reported) R'000	1 June 2017 (restated) R'000	Difference R'000
Revenue	26 800 265	26 734 249	(66 016)			
Changes in inventories of finished goods	(24 441 772)	(24 375 756)	66 016			
(Loss)/gain on associates measured at fair value	(173 645)	–	173 645	160 200	–	(160 200)
Share of gains/(losses) from associates and joint ventures	565 812	520 628	(45 184)	(164 941)	(89 533)	75 408
Net profit for the year attributable to equity holders of the parent	993 624	1 122 085	128 461	781 254	696 462	(84 792)
EPS	116.12	131.13	15.01	114.13	101.75	(12.38)
Diluted EPS	108.10	123.03	14.93	113.17	100.89	(12.28)
HEPS	115.42	130.44	15.02	114.19	101.80	(12.39)
Diluted HEPS	107.41	122.34	14.93	113.22	100.94	(12.28)
Core HEPS	120.61	135.62	15.01	116.24	103.85	(12.39)

12. 2018 ACCOUNTING POLICIES

Amendments were made to IFRS 15 – *Revenue from Contracts with Customers* and IFRS 9 – *Financial Instruments*. Both statements are effective for accounting periods beginning on or after 1 January 2018 and adopted by BLT in the current financial year ended 31 May 2019.

We have adopted these standards as allowed in terms of the modified retrospective approach, and therefore have not restated the comparatives.

The prior year comparative figures are presented under the original accounting policies as were applicable at the time of disclosure. The relevant notes below were included in the prior year financial statements, and are provided again to give clarity on the basis of preparation for the comparative figures.

12.1 Revenue

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of indirect taxes, estimated returns, rebates and discounts, and after eliminated sales within the Group.

Revenue from the sale of goods is recognised when:

- the Group has transferred to the customer the risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue, and associated costs incurred or to be incurred, can be measured reliably;
- it is probable that the economic benefits associated with a transaction will flow to the Group.

Revenue from the rendering of a service is recognised when:

- the amount of revenue, and associated costs incurred or to be incurred, can be measured reliably; and
- it is probable that the economic benefits associated with a transaction will flow to the Group; and
- the stage of completion of the transaction at the end of the reporting period can be measured reliably.

The main categories of revenue are as follows:

(a) Prepaid airtime, data and related revenue

Sale of prepaid airtime and data represents the majority of Group revenue. Prepaid airtime is either physical or virtual. Physical airtime 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 airtime stock at Blue Label depots or it will be delivered via courier to them. Virtual airtime is delivered to a customer in the form of a stock file via SFTP. The stock file contains the same information delivered to Blue Label by the mobile networks, being PIN numbers, product codes, serial numbers and expiry dates.

12. 2018 ACCOUNTING POLICIES continued

12.1 Revenue continued

Revenue recognition continued

(a) Prepaid airtime, data and related revenue continued

On receipt of a customer order, data vouchers are delivered in bulk in the form of a stock file via SFTP. The stock file contains the same information delivered to us by the networks, being PIN numbers, product codes, serial numbers and expiry dates.

For physical airtime, virtual airtime and data vouchers, risks and rewards transfer to the customer on delivery of the physical stock or stock files to them. Blue Label acts as a principal and as such recognises the gross receipt as revenue.

In addition to the above, Blue Label generates PINless revenue on prepaid airtime. Airtime is requested by an end user via one of our customer's integrated systems, upon which we automatically notify the applicable network to increase the relevant end user balance. Blue Label does not take control of PINless stock at any point.

As Blue Label does not take control of stock relating to PINless revenue, risks and rewards transfer from the network directly to the end user when its balance is increased. Revenue is recognised for the agency service at this point. In this scenario, Blue Label acts as an agent as it effectively collects amounts on behalf of the networks and therefore only recognises revenue to the extent of the commission earned.

Incentives relating to these sales, based on contractual criteria, are recognised only once the associated criteria have been met.

(b) Postpaid airtime, data and related revenue

Sales of postpaid airtime and data are recognised on airtime and data contracted to be delivered to customers for a period of time and billed on a monthly basis in arrears. Incentives relating to these sales, based on contractual criteria, are recognised only once the associated criteria have been met. For this category of revenue the Group will act as either a principal or an agent.

(c) Prepaid and postpaid SIM cards

Revenue is recognised when a SIM card is initially sold to the customer. Activation bonuses received from the networks are recognised when the SIM card is activated on the relevant mobile network. Ongoing revenue and other incentives are recognised once the associated contractual criteria have been met. The point of activation is determined by the relevant mobile networks. For this category of revenue the Group acts as a principal.

(d) Sales of services

Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. These services include location-based services, SMS transaction services, media, call centre and data transaction revenue, and technology revenue. For this category of revenue the Group will act as either a principal or an agent.

(e) Electricity commission

The Group sells prepaid electricity to customers on behalf of the utility suppliers. Commissions on the sale of electricity are recognised by the Group when the end customer purchases the electricity voucher, as should the end user choose not to redeem their voucher the Group will still realise the economic benefit of the sale. Commissions are recorded based on agreed rates per the contracts. For this category of revenue the Group acts as an agent.

(f) Sales of handsets, tablets and other devices

Included in this category is revenue earned from the sale of handsets, tablets and devices. Revenue from the sale of handsets, tablets and devices is recognised as a sale of a goods when the device is transferred to a customer. For this category of revenue the Group acts as principal.

(g) Finance revenue

Where the core business of a Group company is to provide finance to its customers, interest earned on the financing arrangement is recognised as revenue. Revenue from a financing arrangement is recognised over the term of the loan at the effective interest rate. For this category of revenue the Group acts as principal.

12. 2018 ACCOUNTING POLICIES continued

12.1 Revenue continued

Critical accounting estimates and assumptions

Significant judgements are made by management when concluding whether the Group is transacting as an agent or a principal. The assessment is performed for each separate revenue stream in the Group. The assessment requires an analysis of key indicators, specifically whether the Group:

- carries any inventory risk;
- has the primary responsibility for providing the goods or services to the customer;
- has the latitude to establish pricing; and
- bears the customer's credit risk.

These indicators are used to determine whether the Group has exposure to the significant risks and rewards associated with the sale of goods or rendering of services. For example, any sale relating to inventory that is held by the Group, not on consignment, is a strong indicator that the Group is acting as a principal.

Where the Group acts in its capacity as principal for the sale of goods or the rendering of services, as it does in the sale of physical prepaid airtime and the sale of handsets, revenue is recognised as the fair value of the consideration receivable net of discounts and taxes. Where the Group acts in its capacity as an agent, as it does in the sale of electricity and PINless airtime, the amount of revenue recorded is the fair value of commission received or receivable.

12.2 Financial instruments and financial risks

Financial instruments carried on the statement of financial position include:

Financial assets

- Loans receivable
- Trade and other receivables
- Cash and cash equivalents
- Financial assets at fair value through profit or loss
- Starter pack assets
- Bonds

Financial liabilities

- Borrowings
- Trade and other payables
- Contingent purchase consideration
- Put option liability
- Liquidity support

The Group recognises a financial asset or a financial liability on its statement of financial position when, and only when, the Group becomes a party to the contractual provisions of the instrument.

Financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs.

Subsequent recognition is dependent on how financial instruments are classified on initial recognition. IAS 39 has several categories but the Group only has financial instruments classified as loans and receivables, fair value through profit or loss and financial liabilities at amortised cost. Financial assets are only derecognised when the criteria for derecognition in IAS 39 are achieved.

Category	Measurement
Loans and receivables • Loans receivable • Trade and other receivables • Starter pack assets • Cash and cash equivalents	Amortised cost using the effective interest method with interest recognised in interest income, less any impairment losses which are recognised as part of credit impairment charges. Directly attributable transaction costs and fees received are capitalised and amortised through interest income as part of the effective interest rate.
Fair value through profit or loss • Put option liability • Bonds and liquidity support	Fair value, with gains or losses recognised in profit or loss.
Financial liabilities • Borrowings • Trade and other payables • Put option liability • Contingent purchase consideration	Amortised cost using the effective interest method with interest recognised in interest expense. Directly attributable transaction costs and fees received are capitalised and amortised through interest expense as part of the effective interest rate.