BLUE LABEL
TELECOMS

CONNECTING OUR WORLD TO YOURS

ANNUAL FINANCIAL STATEMENTS 2020

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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 (Companies Act). 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 2020

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.

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 27 August 2020 and are signed on its behalf by:

LM Nestadt
Non-Executive Chairman

DA Suntup
Financial Director

BM Levy
Joint Chief Executive Officer

MS Levy
Joint Chief Executive Officer

Declaration by the Company Secretary

For the year ended 31 May 2020

In terms of section 88(2)(e) of the Companies Act, I confirm that for the year ended 31 May 2020, 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 Companies Act and that all such returns and notices are true, correct and up to date.

J van Eden
Group Company Secretary

Sandton

27 August 2020

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 or Blue Label) for the year ended 31 May 2020.

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 touchpoints. The Group's stated strategy is to extend its global footprint of touchpoints, 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 2020 of R124 million (2019: loss of R6 646 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 2020 were approved by the Board and signed on its behalf on 27 August 2020.

Share capital

Full details of the authorised, issued and unissued capital of the Company at 31 May 2020 are contained in note 6.1 of the Group annual financial statements.

Dividends

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

Subsequent events and going concern

Blue Label Mexico

Blue Label Telecoms is currently in the process of concluding the disposal of its 47.56% interest in Blue Label Mexico, the structure of which is yet to be finalised. Once completed, shareholders will be notified accordingly.

Banking facilities

On 29 November 2019, The Prepaid Company's Investec banking facilities totalling R2.176 billion were successfully renewed, of which R1.5 billion was extended for a period of 12 months to 31 March 2021 and R676 million for nine months to 31 August 2020. Of the latter amount, R542 million has been paid to date.

As at the date of publication of the 31 May 2020 financial statements, the Prepaid Company renegotiated a further extension of the R1.5 billion facility from 31 March 2021 to 30 September 2021, demonstrating Investec's confidence in Blue Label. The exposure to Investec is required to be no more than R1 billion as at 31 March 2021.

As at 31 May 2020, The Prepaid Company's Investec facilities were disclosed as current borrowings, as the extension to 30 September 2021 was only granted in August 2020.

On 9 September 2016, Comm Equipment Company (CEC) entered into a debt funding agreement with Investec and Rand Merchant Bank. This debt funding was divided into three separate facilities, namely senior facility A of R858 million, senior facility B of R650 million and mezzanine facility of R410 million. In February 2020, the proceeds of R604 million from the sale of the 3G Mobile Handset division were applied against the senior A facility. All three facilities were due to expire on 31 August 2020.

CEC's facilities have been renegotiated to 31 August 2021 comprising R267 million for senior facility A, R200 million for senior facility B and R411 million for the mezzanine facility.

As at 31 May 2020, CEC's debt facilities were disclosed as current borrowings, as the extension to 31 August 2021 was only granted in August 2020.

Going concern

In spite of certain restrictions caused by the COVID-19 pandemic, Blue Label has continued to deliver essential services, including electricity, airtime, data and other digital services, as well as providing financial transactional services. The lockdown regulations and the downturn in economic activity have not impacted negatively on airtime, data and electricity sales volumes. The Group's digital expertise has enabled uninterrupted access of all its products and services through banks, formal retailers, independent retailers, petroleum forecourts and spaza shops across South Africa. Cash flow generated by the core businesses within the Group has consequently not been negatively impacted.

Directors' report continued

The products and services that Blue Label provides fulfil essential needs of the consumer, even more so during lockdown due to home confinement. In essence, such demand would only decline if consumer cash resources dwindle as a result of a decline in their income. In a situation of this nature, Blue Label's products and services would remain a priority in consumer spend and retain a level of resilience in comparison to other consumer goods and services.

The Group's retail business, starter pack distribution, gaming vouchers and ticketing were negatively impacted during the initial lockdown period. Starter pack distribution and gaming voucher trading volumes are now back to pre-COVID-19 levels.

The lockdown, however, had a significant negative impact on the retail operations of WiConnect and given the uncertainty of the duration of the pandemic and the resultant losses attributable thereto impacting on its financial feasibility, a decision was made prior to year-end to cease the operations of the WiConnect retail stores. This resulted in a negative impact of R318 million on the Group's basic earnings for the year ended 31 May 2020. The actual cash outflow required for the closure of the stores, which is included in the R318 million expense, will however be confined to approximately R30 million, in that the balance of such negative earnings represents all trading losses which have been expended, impairments to property, plant and equipment and goodwill.

Challenging economic conditions, an unfavourable trading environment, margin compression as a result of reduced incentives from the mobile networks and an increase in product costs, exacerbated by COVID-19, necessitated an impairment of goodwill in Blue Label Connect of R157 million, a partial goodwill impairment in Glocell Distribution of R57 million and a fair value downward adjustment of the Glocell loan, net of taxation, of R47 million.

In considering credit risk, management included considerations related to COVID-19 when calculating ECLs. The considerations resulted in increased probability of default percentages in the current year when compared to the prior year and ultimately in an increase of the average ECL/impairment ratio on total trade receivables from 2.46% in the prior year to 3.68% in the current year. The Group did not experience any significant defaults or requests from material clients for easing of payment terms or payment holidays.

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group has sufficient liquidity to meets its obligations and will be able to operate within its current funding levels without breaching any of its current covenants into the foreseeable future.

The Directors are of the opinion that the Group has adequate resources to continue in operational existence for the foreseeable future. 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	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	—
Joe S Mthimunye	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	—

Directors' interests

The individual interests declared by Directors in the Company's share capital as at 31 May 2020, held directly or indirectly, were as follows:

	Nature of interest			
	Direct beneficial		Indirect beneficial	
Director/officer	2020	2019	2020	2019
BM Levy	67 220 664	67 174 937	17 772 778	17 772 778
MS Levy	59 813 256	59 767 529	17 772 777	17 772 777
KM Ellerine*	–	–	120 000 000	114 660 000
GD Harlow	–	–	1 685 114	4 445 569
JS Mthimunye	130 000	130 000	242 573	242 573
LM Nestadt	–	–	10 000 000	10 000 000
DA Suntup	3 850 297	3 826 078	177 778	177 778
JS Vilakazi	–	–	–	–

* 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:

	Number of shares	
Director/officer	2020	2019
Beneficial	298 665 237	295 970 019

The beneficial interest held by Directors and officers of the Company constitutes 32.69% (2019: 32.73%) 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.

Resolutions

On 28 November 2019, 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 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 Companies 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 2020.

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 annual 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 coordinated 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 cooperate with the Committee's requests – or external parties; and
- meet with the organisation's officers, external auditor, or outside counsel as necessary.

Membership and meetings held

In accordance with the requirements of the Companies Act, Messrs JS Mthimunye, GD Harlow and SJ Vilakazi were appointed to the Committee by shareholders at the Annual General Meeting held on 28 November 2019:

- JS Mthimunye (Independent Non-Executive Chairman)
- GD Harlow (Independent Non-Executive Director)
- J 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 PricewaterhouseCoopers Inc. (PwC) and a director from KPMG Services Proprietary Limited (KPMG), 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.

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 auditor, 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 Companies 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 discharged

Annual 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 annual 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. The designated individual partner, Mr Pietro Calicchio took over from Mr Deon Storm at the end of the preceding financial year as a result of rotation requirements. PwC has been the auditor of the Company for 16 years.

To assess the effectiveness of the external auditor, 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 2020 financial year.

Any non-audit services to be provided by the external auditor 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 auditor during the year ended 31 May 2020 comprised tax advisory services, tax compliance services and general advisory services. The fees applicable to the aforementioned services totalled R6.6 million (2019: R1.56 million).

The ARCC has nominated, for approval at the Annual General Meeting, the reappointment of PwC as registered auditing firm for the 2021 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 is outsourced to KPMG Services Proprietary Limited 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.

Audit, Risk and Compliance Committee's report continued

The Committee:

- reviewed the cooperation and coordination 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 2019/20 audit plan;
- considered the combined/integrated assurance plan for the 2019/20 financial year;
- approved the revised Group Internal Audit terms of reference;
- approved the risk-based internal audit plan for the 2019/20 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.

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.

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. 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.

* Copyright and trademarks are owned by the Institute of Directors in Southern Africa NPC and all of its rights are reserved.

Annual financial statements

The Committee has reviewed the accounting policies and annual 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.

The Committee has evaluated the Group annual financial statements of Blue Label Telecoms Limited for the year ended 31 May 2020 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.

This matter was addressed as follows:

The impairment assessment of goodwill arising from business combinations

For the year ended 31 May 2020, 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 above impairment assessments, as well as management judgement, the following impairments were applied:

Blue Label Connect Proprietary Limited

Blue Label Connect is engaged in the supply of post-paid mobile communications products, with focused marketing to end consumers. The company's performance has been negatively impacted as a result of challenging economic conditions due in part to COVID-19. Furthermore, margin compression resulting from reduced incentives from the networks as well as an increase in product costs, has resulted in the decision to impair their goodwill of R156.5 million in full (2019: R49.2 million). The recoverable amount of Blue Label Connect is calculated to be R291 million.

Glocell Distribution Proprietary Limited

GloCell Distribution's core strategy is the distribution of starter packs for the various mobile network operators through its established channels. In the current year, the company experienced unfavourable trading conditions, with specific reference to starter packs, exacerbated by the impact of COVID-19, which resulted in a goodwill impairment of R57 million. The recoverable amount of Glocell Distribution attributable to The Prepaid Company's 48% shareholding is calculated to be R152 million.

WiConnect Proprietary Limited

WiConnect provided customers with the full suite of cellular and Blu Approved products through its retail stores. Despite the implementation of a turnaround strategy, the severe impact of COVID-19 on WiConnect's performance resulted in the decision to cease operations in their entirety. As such, the recoverable amount of WiConnect equates to its net asset value of Rnil and the goodwill of R45.6 million attributable to the entity was impaired in full.

Management concluded there was no need for any further impairment.

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 2020

Independent auditor's report

To the shareholders of Blue Label Telecoms Limited

Report on the audit of the consolidated financial statements

Our 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 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) 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 16 to 122 comprise:

- the Group statement of financial position as at 31 May 2020;
- 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 September 2019 on the consolidated financial statements of the prior year contained a qualified audit opinion. That qualification arose due to our inability to obtain sufficient 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 2.1 to the consolidated financial statements, the restructuring of the operations and capital structure of Cell C is still in progress and the outcome thereof uncertain as at the date of this audit report. As a result, we are still unable to obtain sufficient 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 as follows:

- The disclosure of summary financial information of Cell C for both the current and prior year, presented in note 2.1 to the consolidated financial statements, may require material adjustment. Such material adjustment for the current year would have no impact on the current year Group income statement or Group statement of financial position, as the investment in Cell C was fully impaired in the prior year and the Group ceased equity accounting for the losses of Cell C in the current year in accordance with IFRS.
- In the prior year consolidated financial statements, there could have been a material classification misstatement in the Group income statement, where the share of losses from associates and joint ventures may have been materially understated with an equal and opposite overstatement of the impairments on associates and joint ventures financial statement line item. This potential classification misstatement affects the comparability of the current and prior year Group income statements, even though it would have had no effect on the Group's consolidated loss before taxation in the prior year.
- The comparability of the current year headline earnings per share (HEPS) and core HEPS earnings measures to those of the prior year may also be impacted, should the equity-accounted losses and impairment of investment in Cell C have differed materially in the prior year, as explained above.

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.

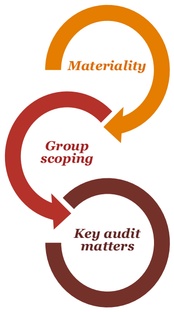
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Independence

We are independent of the Group in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised January 2018)*, parts 1 and 3 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised November 2018)* (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* and the International Ethics Standards Board for Accountants' International *Code of Ethics for Professional Accountants (including International Independence Standards)* respectively.

Our audit approach

Overview



Overall Group materiality

- Overall Group materiality: R147 900 000, which represents 0.7% of consolidated revenue from continuing operations.

Group audit scope

- We have identified 14 components which, in our view, require an audit of their financial information due to their financial significance to the Blue Label Telecoms Group or due to their risk characteristics.

Key audit matters

- 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	R147 900 000.
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. Revenue from discontinued operations is excluded as it will not reflect a consistent measurement of performance into the future. 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.

Independent auditor's report

To the shareholders of Blue Label Telecoms Limited continued

How we tailored our Group audit scope

The Group is made up of five segments, African distribution, International distribution, Mobile, Solutions and Corporate which operate across eight countries and four continents. 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 14 components on which to perform full scope audits for Group reporting purposes due to 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 assess whether any risks exist that would require additional audit procedures.

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

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 matters 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 over the last couple of years which resulted in significant goodwill being recognised. The goodwill recognised in these business combinations relates mainly to expected synergies and the ability to introduce new service offerings. 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 judgemental, and is based on a number of critical assumptions, estimates and judgement, including the terminal growth rate, discount rate and forecast cash flows, which are affected by expected future market or economic conditions which includes the impact of COVID-19. Changes in these assumptions may lead to an impairment charge being recognised for the remaining goodwill balances.	For material goodwill balances, for which the recoverable amount was determined through value-in-use estimation, 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, which included consideration of the impact of COVID-19 on these forecasts. 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.

Key audit matter

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 2020, the significant judgement and estimates involved in determining the year-on-year EBITDA growth rates, subscription bases, terminal growth rate, discount rate and forecast cash flows, as well as the future market or economic conditions faced by the various businesses within the Group.

Management performed an impairment assessment over the goodwill balance as at 31 May 2020 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.
- Performing a sensitivity analysis over the value-in-use calculations, by varying the assumptions used (year-on-year EBITDA growth rates, subscription bases, 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 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 exceptions.
- 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 further material impairments were indicated by any differences in discount rates.
- The terminal growth rates were compared 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.

Other information

The directors are responsible for the other information. The other information comprises the information included in the documents titled "Blue Label Telecoms Annual Financial Statements 2020" and "Blue Label Telecoms Limited Annual Financial Statements for the year ended 31 May 2020", which include 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 2020", which is expected to be made available to us after that date. The other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Independent auditor's report

To the shareholders of Blue Label Telecoms Limited continued

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, as well as the comparability of certain financial statement items with the prior year. 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 16 years.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: Pietro Calicchio

Registered Auditor

Waterfall

27 August 2020

Group income statement

For the year ended 31 May 2020

	Notes	2020 R'000	Restated* 2019 R'000
CONTINUING OPERATIONS			
Revenue	1.2	**21 135 326**	23 602 264
Revenue from contracts with customers		**20 756 487**	23 174 511
Finance revenue**		**378 839**	427 753
Other income		**105 273**	81 692
Changes in inventories of finished goods		**(18 866 243)**	(21 243 167)
Finance costs incurred in the generation of revenue		**(144 472)**	(185 411)
Employee compensation and benefit expense	5.2	**(512 647)**	(482 219)
Depreciation and amortisation		**(189 314)**	(170 455)
Impairments and fair value movements	1.3	**(364 233)**	(894 277)
Bad debts and expected credit loss	1.3	**(116 332)**	(235 553)
Other expenses		**(411 308)**	(386 029)
Operating profit		**636 050**	86 845
Finance costs	1.4	**(229 988)**	(230 306)
Finance income	1.4	**78 175**	92 292
Impairments on associates and joint venture	1.3	**—**	(2 639 564)
Share of gains/(losses) from associates and joint ventures	2.1	**16 598**	(3 693 431)
Profit/(loss) before taxation		**500 835**	(6 384 164)
Taxation	7.1	**(219 752)**	(278 449)
Profit/(loss) after taxation from continuing operations		**281 083**	(6 662 613)
(Loss)/profit from discontinued operations	11	**(61 976)**	40 417
Profit/(loss) for the year		**219 107**	(6 622 196)
Profit/(loss) for the year from continuing operations attributable to:			
Equity holders of the parent		**226 786**	(6 672 923)
Non-controlling interest		**54 297**	10 310
(Loss)/profit for the year from discontinued operations attributable to:			
Equity holders of the parent		**(102 305)**	26 540
Non-controlling interest		**40 329**	13 877
Earnings per share for profit/(loss) attributable to:			
Equity holders (cents)			
— Basic	1.5	**13.89**	(727.81)
— Diluted[1]	1.5	**13.89**	—

* As a result of the discontinued operations, the Group has restated its comparative financial information. Refer to note 11 for details.

** The split of revenue between revenue from contracts with customers and finance revenue is now disclosed on the face of the Group income statement. It was previously disclosed in the notes. The comparatives have been restated.

[1] There were no dilutive instruments in the prior year.

Included on the face of the Group income statement are line items called "Impairments and fair value movements" and "Bad debts and expected credit loss". In the prior year, these were included in one line item called "Impairments and fair value losses". In order to enhance the disclosure, the Group now discloses them on separate line items.

Group statement of comprehensive income

For the year ended 31 May 2020

	2020 R'000	2019 R'000
Net profit/(loss) for the year	**219 107**	(6 622 196)
Other comprehensive income:		
Items reclassified to profit or loss		
Foreign currency translation reserve reclassified to profit or loss*	**(53 535)**	(144)
Items that may be subsequently reclassified to profit or loss		
Foreign exchange profit on translation of associates and joint ventures*	**19 091**	45 868
Foreign exchange profit on translation of foreign operations*	**36 089**	21 247
Other comprehensive income for the year, net of tax	**1 645**	66 971
Total comprehensive income/(loss) for the year	**220 752**	(6 555 225)
Total comprehensive income/(loss) for the year attributable to:		
Equity holders of the parent	**113 031**	(6 582 478)
Non-controlling interest	**107 721**	27 253
Total comprehensive income/(loss) for the period attributable to equity holders of the parent arises from:	**113 031**	(6 582 478)
Continuing operations	**247 406**	(6 634 096)
Discontinued operations	**(134 375)**	51 618

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

Group statement of financial position

As at 31 May 2020

	Notes	31 May 2020 R'000	31 May 2019* R'000
ASSETS			
Non-current assets		**2 357 620**	3 477 070
Property, plant and equipment	4.3	**198 688**	237 657
Right-of-use assets	3.8	**87 852**	—
Intangible assets	4.2	**533 853**	1 083 328
Goodwill	4.1	**681 243**	1 234 995
Investments in and loans to associates and joint ventures	2.1	**197 455**	218 842
Loans receivable	3.5.1	**36 516**	41 760
Advances to customers	3.5.3	**449 825**	584 440
Financial assets at fair value through profit or loss	3.7	**104 829**	—
Deferred taxation assets	7.2	**67 359**	76 048
Current assets		**7 996 086**	8 604 302
Loans to associate	2.1	**9 488**	—
Inventories	4.4	**576 950**	1 514 649
Loans receivable	3.5.1	**35 604**	105 766
Trade and other receivables	3.5.2	**3 929 743**	4 257 266
Advances to customers	3.5.3	**1 232 250**	1 032 657
Financial assets at fair value through profit or loss	3.7	**144 709**	289 742
Current tax assets		**52 425**	18 626
Cash and cash equivalents	3.5.4	**2 014 917**	1 385 596
Total assets		**10 353 706**	12 081 372
EQUITY AND LIABILITIES			
Capital and reserves		**2 485 117**	2 491 562
Issued share capital and premium		**7 573 586**	7 599 016
Other reserves	6.2	**(2 689 960)**	(2 824 740)
Retained earnings		**(2 442 993)**	(2 405 031)
Total ordinary shareholders' equity		**2 440 633**	2 369 245
Non-controlling interest		**44 484**	122 317
Non-current liabilities		**208 689**	1 951 920
Deferred taxation liabilities	7.2	**124 990**	236 400
Non-current lease liability	3.8	**80 921**	—
Borrowings	3.6.2	**2 778**	1 715 520
Current liabilities		**7 659 900**	7 637 890
Trade and other payables	3.6.1	**4 611 643**	5 371 386
Lease liability	3.8	**60 202**	—
Financial guarantee contracts	3.6.3	**201 474**	243 492
Provisions	4.5	**29 534**	24 947
Financial liabilities at fair value through profit or loss	3.7	**435 086**	460 354
Current tax liabilities		**5 386**	9 104
Borrowings	3.6.2	**2 316 383**	1 520 764
Bank overdraft	3.5.4	**192**	7 843
Total equity and liabilities		**10 353 706**	12 081 372

* Surety loans receivable have been reclassified to better align the presentation with the nature of the instrument. Refer to note 3.7.

Group statement of changes in equity

For the year ended 31 May 2020

	Notes	Issued share capital and premium R'000	Retained earnings R'000
Opening balance as at 1 June 2018		7 844 847	4 241 352
Net loss for the year		—	(6 646 383)
Other comprehensive income		—	—
Total comprehensive (loss)/income		—	(6 646 383)
Treasury shares purchased	6.1	(42 378)	—
Shares repurchased	6.1	(224 006)	—
Equity compensation benefit scheme shares vested		20 553	—
Equity compensation benefit movement		—	—
Transaction with non-controlling interest reserve movement[1]		—	—
Non-controlling interest acquired		—	—
Non-controlling interest disposed of		—	—
Dividends paid		—	—
Balance as at 31 May 2019		**7 599 016**	**(2 405 031)**
Net profit for the year		**—**	**124 481**
Other comprehensive income/(loss)		**—**	**—**
Total comprehensive income/(loss)		**—**	**124 481**
Treasury shares purchased	6.1	**(46 352)**	**—**
Equity compensation benefit scheme shares vested		**20 922**	**—**
Equity compensation benefit movement		**—**	**(7 093)**
Transaction with non-controlling interest reserve movement[2]		**—**	**(156 750)**
Non-controlling interest acquired		**—**	**—**
Blue Label Mobile restructure	11	**—**	**—**
Non-controlling interest disposed of		**—**	**—**
Share-based payment reserve recycled to retained earnings		**—**	**1 400**
Dividends paid		**—**	**—**
Balance as at 31 May 2020		**7 573 586**	**(2 442 993)**

[1] The majority of this amount relates to the put option on the acquisition of AV Technology Limited. Refer to note 3.7.

[2] The majority of this amount relates to the derecognition of the transaction with non-controlling interest reserve on the effective date of the VAS operations disposal. Refer to note 11.

Other reserves R'000	Total ordinary shareholders' equity R'000	Non-controlling interest R'000	Total equity R'000
(2 814 202)	9 271 997	155 480	9 427 477
—	(6 646 383)	24 187	(6 622 196)
63 905	63 905	3 066	66 971
63 905	(6 582 478)	27 253	(6 555 225)
—	(42 378)	—	(42 378)
—	(224 006)	—	(224 006)
(19 915)	638	(638)	—
7 149	7 149	577	7 726
(61 677)	(61 677)	—	(61 677)
—	—	(25 904)	(25 904)
—	—	1 099	1 099
—	—	(35 550)	(35 550)
(2 824 740)	**2 369 245**	**122 317**	**2 491 562**
—	**124 481**	**94 626**	**219 107**
(11 450)	**(11 450)**	**13 095**	**1 645**
(11 450)	**113 031**	**107 721**	**220 752**
—	**(46 352)**	**—**	**(46 352)**
(20 582)	**340**	**(340)**	**—**
16 332	**9 239**	**119**	**9 358**
156 750	**—**	**—**	**—**
(18 105)	**(18 105)**	**17 590**	**(515)**
13 235	**13 235**	**21 200**	**34 435**
—	**—**	**(156 654)**	**(156 654)**
(1 400)	**—**	**—**	**—**
—	**—**	**(67 469)**	**(67 469)**
(2 689 960)	**2 440 633**	**44 484**	**2 485 117**

Group statement of cash flows

For the year ended 31 May 2020

	Notes	2020 R'000	2019 R'000
Cash flows from operating activities			
Cash received from customers		**23 539 462**	25 995 287
Cash paid to suppliers, financiers and employees		**(21 836 971)**	(25 564 000)
Cash generated by operations	1.6	**1 702 491**	431 287
Interest received		**93 053**	88 416
Interest paid		**(214 166)**	(231 131)
Taxation paid		**(324 553)**	(369 086)
Net cash generated from/(utilised in) operating activities		**1 256 825**	(80 514)
Cash flows from investing activities			
Acquisition of intangible assets		**(31 093)**	(75 931)
Proceeds on disposal of intangible assets		**19 038**	51
Acquisition of property, plant and equipment		**(139 430)**	(134 028)
Proceeds on disposal of property, plant and equipment		**15 150**	5 230
Acquisition of subsidiary, net of cash acquired		**206**	(7 162)
Proceeds from disposal of shares in subsidiary, net of cash disposed	2.4	**698 335**	–
Liquidity support granted		**–**	(326 388)
Loan repaid by Cell C		**–**	1 135 759
Loan granted to Cell C		**–**	(106 132)
Loans advanced to associates and joint ventures		**(5 369)**	(13 284)
Loans repaid by associates and joint ventures		**17 888**	1 690
Dividend received from associate and joint venture	2.1	**6 100**	17 992
Loans granted		**(185 635)**	(29 916)
Loans receivable repaid		**58 430**	96 007
Settlement of contingent consideration		**–**	(2 614)
Net cash generated by investing activities		**453 620**	561 274
Cash flows from financing activities			
Interest-bearing borrowings raised	3.6.2	**31 487**	993 439
Interest-bearing borrowings repaid	3.6.2	**(911 836)**	(769 652)
Non-interest-bearing borrowings raised	3.6.2	**170**	35 876
Non-interest-bearing borrowings repaid	3.6.2	**(22 094)**	(170)
Proceeds from dilution of shares in subsidiary*		**34 435**	–
Principal lease repayments		**(53 210)**	–
Settlement of financial guarantee	3.6.3	**(44 190)**	–
Share buy-back**	6.1	**–**	(224 006)
Acquisition of treasury shares	6.1	**(46 352)**	(42 378)
Dividends paid to non-controlling interest		**(67 469)**	(35 550)
Net cash utilised in financing activities		**(1 079 059)**	(42 441)
Net increase in cash and cash equivalents		**631 386**	438 319
Cash and cash equivalents at the beginning of the year		**1 377 753**	947 888
Exchange gains/(losses) on cash and cash equivalents		**5 586**	(8 454)
Cash and cash equivalents at the end of the year	3.5.4	**2 014 725**	1 377 753

* This relates to Malik Investment Holdings Proprietary Limited's subscription for a further 4.51% in Blue Label Mobile Holdings Proprietary Limited. Refer to note 11.

** Approximately 32.9 million shares were repurchased in the prior year over the period 22 August 2018 to 21 September 2018 at a weighted average price of R6.78 per share.

Refer to note 11 for the cash flows included above that relate solely to discontinued operations.

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For the year ended 31 May 2020

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Notes to the Group annual financial statements

For the year ended 31 May 2020

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.

The segment results for the year ended 31 May 2020 are as follows:

	Total		**Africa Distribution**	
	2020 **R'000**	Restated* 2019 R'000	**2020** **R'000**	Restated* 2019 R'000
Continuing operations				
Total segment revenue	**30 818 506**	33 413 055	**30 165 762**	33 016 255
Internal revenue	**(9 683 180)**	(9 810 791)	**(9 219 540)**	(9 617 229)
Revenue	**21 135 326**	23 602 264	**20 946 222**	23 399 026
Segment result				
Operating profit/(loss) before depreciation, amortisation and the additional items listed below	**1 305 929**	1 387 130	**1 331 270**	1 443 689
Impairment of goodwill	**(213 583)**	(50 398)	**(213 583)**	(50 398)
Surety receivable recognised	**19 826**	29 998	**–**	–
Fair value losses on SPV1 and SPV2	**(48 694)**	(750 264)	**(48 694)**	(750 264)
Fair value losses on other financial instruments	**(121 782)**	(123 613)	**(73 516)**	(123 613)
Expected credit loss on loans	**(56 214)**	(163 552)	**(4 458)**	(2 060)
Financial guarantee contracts	**7 829**	(58 832)	**7 829**	3 300
Bad debts and expected credit losses on trade receivables, other receivables and advances to customers	**(67 947)**	(13 169)	**(67 673)**	(13 169)
Depreciation and amortisation	**(189 314)**	(170 455)	**(168 855)**	(168 596)
Operating profit/(loss)	**636 050**	86 845	**762 320**	338 889
Finance costs	**(229 988)**	(230 306)	**(215 296)**	(211 616)
Finance income	**78 175**	92 292	**75 474**	77 356
Impairments on associates and joint venture	**–**	(2 639 564)	**–**	(2 521 152)
Share of profits/(losses) from associates and joint ventures	**16 598**	(3 693 431)	**2 635**	(3 605 759)
Taxation	**(219 752)**	(278 449)	**(203 637)**	(256 656)
Profit/(loss) for the year from continuing operations	**281 083**	(6 662 613)	**421 496**	(6 178 938)
Profit/(loss) for the year from continuing operations attributable to:				
Equity holders of parent	**226 786**	(6 672 923)	**375 952**	(6 179 847)
Non-controlling interest	**54 297**	10 310	**45 544**	909
(Loss)/profit from discontinued operations attributable to equity holders of the parent	**(102 305)**	26 540	**(261 707)**	61 972
Profit/(loss) for the year attributable to equity holders of the parent	**124 481**	(6 646 383)	**114 245**	(6 117 875)
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	**124 481**	(6 646 383)	**114 245**	(6 117 875)
Amortisation of intangibles raised through business combinations net of tax and non-controlling interest	**40 819**	70 485	**36 357**	61 151
Headline earnings adjustment	**396 832**	3 792 743	**372 374**	3 530 852
Core headline earnings for the year	**562 132**	(2 783 155)	**522 976**	(2 525 872)

* As a result of the discontinued operations, the Group has restated its comparative financial information. Refer to note 11 for details.

The Company is domiciled in the Republic of South Africa. The continuing revenue earned from external customers in South Africa is R21.1 billion (2019: R23.6 billion), and from external customers from other countries is R6 million (2019: R49 million).

The Africa Distribution segment includes revenue of R2.7 billion and R2.1 billion earned from two external customers.

At 31 May 2020, the Group is managed on the basis of five main business segments:

- Africa Distribution, which 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, which includes associate operations involved in the distribution of prepaid airtime in Mexico and the investment in Oxigen Services India. Refer to note 2.1.
- Mobile, which includes the provision of a complete mobile transactional ecosystem and services provisioning platform delivering mobile-centric products and services through any mobile channel, including location-based and WASP services, and music and digital content provision. The entities within this segment, forming part of the VAS operations, were disposed of in the current year and accounted for as discontinued operations. Refer to note 11 for details.
- Solutions, which 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, which performs the head office administration function.

International		**Mobile**		**Solutions**		**Corporate**	
	Restated*		Restated*				
2020	2019	**2020**	2019	**2020**	2019	**2020**	2019
R'000	R'000	**R'000**	R'000	**R'000**	R'000	**R'000**	R'000
–	–	**–**	–	**191 830**	205 106	**460 914**	191 694
–	–	**–**	–	**(2 726)**	(1 868)	**(460 914)**	(191 694)
–	–	**–**	–	**189 104**	203 238	**–**	–
31 397	18 314	**–**	–	**40 798**	38 049	**(97 536)**	(112 922)
–	–	**–**	–	**–**	–	**–**	–
19 826	29 998	**–**	–	**–**	–	**–**	–
–	–	**–**	–	**–**	–	**–**	–
–	–	**–**	–	**–**	–	**(48 266)**	–
(31 749)	(101 672)	**–**	–	**(194)**	(263)	**(19 813)**	(59 557)
–	–	**–**	–	**–**	–	**–**	(62 132)
–	–	**–**	–	**(274)**	–	**–**	–
–	–	**–**	–	**(923)**	(292)	**(19 536)**	(1 567)
19 474	(53 360)	**–**	–	**39 407**	37 494	**(185 151)**	(236 178)
(48)	–	**–**	–	**(196)**	–	**(14 448)**	(18 690)
998	7 946	**–**	–	**1 470**	3 154	**233**	3 836
–	(118 412)	**–**	–	**–**	–	**–**	–
(5 806)	(110 441)	**–**	–	**19 769**	22 769	**–**	–
(8 547)	(3 178)	**–**	–	**(10 784)**	(10 453)	**3 216**	(8 162)
6 071	(277 445)	**–**	–	**49 666**	52 964	**(196 150)**	(259 194)
6 071	(277 445)	**–**	–	**40 913**	43 563	**(196 150)**	(259 194)
–	–	**–**	–	**8 753**	9 401	**–**	–
14 617	14 186	**144 785**	(49 618)	**–**	–	**–**	–
20 688	(263 259)	**144 785**	(49 618)	**40 913**	43 563	**(196 150)**	(259 194)
20 688	(263 259)	**144 785**	(49 618)	**40 913**	43 563	**(196 150)**	(259 194)
3 835	7 675	**627**	1 659	**–**	–	**–**	–
(2 908)	165 443	**27 369**	96 448	**(3)**	–	**–**	–
21 615	(90 141)	**172 781**	48 489	**40 910**	43 563	**(196 150)**	(259 194)

Notes to the Group annual financial statements continued

For the year ended 31 May 2020

1. RESULTS OF OPERATIONS continued

1.1 Segmental summary continued

Discontinued operations

The current and prior year segmental results have been adjusted to account for the discontinued operations within the Africa Distribution segment (3G Mobile, Airvantage and WiConnect), the Mobile segment (Cellfind, Panacea, Simigenix and Viamedia) and the International segment (AV Technology and Airvantage Brazil). Refer to note 11 for details. In addition, Blue Label One has been reallocated from the Mobile segment to the Africa Distribution segment.

Core headline earnings

Core headline earnings is a non-IFRS measures 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 1/2019.

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

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.
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.

Measurement and terms of sale	Critical estimates and judgements
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.	**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.
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.	**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.

Notes to the Group annual financial statements continued

For the year ended 31 May 2020

1. RESULTS OF OPERATIONS continued

1.2 Revenue continued

Revenue source	Performance obligations included	Recognition
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.
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.
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.
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, and the sale of tickets for transportation and to sporting events.	Revenue is recognised either at a point in time or over time as control is transferred to the customer in the arrangement.

Measurement and terms of sale	Critical estimates and judgements
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.
Revenue earned on transactions 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.	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.
Electricity commissions earned are measured at the contractually agreed commission percentage per rand of electricity sold. Payment terms are generally 30 to 60 days.	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.
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.	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.
Finance revenue is measured at the effective interest rate implicit in the financing arrangement.	No significant judgements or estimates.
Revenue is measured at the consideration received in terms of the arrangement with the customer. Payment terms are generally between 30 and 60 days.	No significant judgements or estimates.

Notes to the Group annual financial statements continued

For the year ended 31 May 2020

1. RESULTS OF OPERATIONS continued

1.2 Revenue continued

	Total	
	2020 **R'000**	Restated* 2019 R'000
Revenue from contracts with customers	**20 756 487**	23 174 511
Prepaid airtime, data and related revenue	**18 842 481**	20 780 969
Postpaid airtime, data and related revenue	**137 922**	141 405
Prepaid and postpaid SIM cards	**634 809**	964 054
Services	**319 623**	350 081
Electricity commission	**358 728**	347 538
Handsets, tablets and other devices	**262 926**	432 374
Other revenue	**199 998**	158 090
Finance revenue	**378 839**	427 753
	21 135 326	23 602 264

* Revenue generating entities accounted for as discontinued operations that were previously disclosed within the Africa, Mobile and International segments are not included in current or prior period revenue per the Group statement of comprehensive income. The Group has restated its comparative financial information. The Mobile and International segments have been excluded from the above table as the only revenue generating entities that were accounted for within these segments were part of the VAS operations that have been accounted for as discontinued operations and disposed of. Refer to note 11.

1.3 Operating profit

	2020 **R'000**	Restated* 2019 R'000
The following has been charged/(credited) in arriving at operating profit:		
Advertising and promotional expenses	**20 341**	19 607
Audit fees – services as auditors relating to the year-end audit	**30 290**	24 656
Audit fees – other	**11 955**	1 436
Consulting fees	**87 043**	71 138
Foreign exchange loss/(gain)	**9 642**	(2 827)
Foreign exchange gain on 2DFine and OSI loans	**(50 336)**	(34 284)
Impairment of inventory	**5 167**	5 024
IT infrastructure costs and computer-related costs	**47 884**	33 614
Legal fees	**17 100**	9 819
Licence fees	**23 758**	14 592
Motor vehicle expenses	**14 240**	15 089
Operating lease rentals – premises[1]	**5 799**	37 980
Profit on disposal of property, plant and equipment	**(1 809)**	(1 159)
Travel – local and overseas	**9 347**	11 544

* As a result of the discontinued operations, the Group has restated its comparative financial information. Refer to note 11 for details.

[1] Operating lease rentals relate to short-term leases in terms of IFRS 16, which has been adopted in the current year. Refer to note 10.5. The comparative amount relates to all operating leases in terms of the previously applied IAS 17.

Africa Distribution		Solutions	
	Restated*		
2020	2019	**2020**	2019
R’000	R’000	**R’000**	R’000
20 567 383	22 971 273	**189 104**	203 238
18 842 481	20 780 969	**—**	—
137 922	141 405	**—**	—
634 809	964 054	**—**	—
130 519	146 843	**189 104**	203 238
358 728	347 538	**—**	—
262 926	432 374	**—**	—
199 998	158 090	**—**	—
378 839	427 753	**—**	—
20 946 222	23 399 026	**189 104**	203 238

Notes to the Group annual financial statements continued

For the year ended 31 May 2020

1. RESULTS OF OPERATIONS continued

1.3 Operating profit continued

	2020 R'000	Restated* 2019 R'000
Impairments and fair value movements comprise the following:		
Impairment of goodwill	**213 583**	50 398
Surety receivable recognised	**(19 826)**	(29 998)
Fair value losses on financial instruments	**170 476**	873 877
	364 233	894 277
Bad debts and expected credit loss, arising from the application of IFRS 9, comprise the following:		
Expected credit loss on loans	**4 652**	2 323
Expected credit loss on 2DFine and OSI loans	**51 562**	161 229
Financial guarantee contracts	**(7 829)**	58 832
Bad debts and expected credit losses on trade receivables, other receivables and advances to customers	**67 947**	13 169
	116 332	235 553
Impairments on associates and joint venture comprise the following:		
Impairment of investment in OSI	**–**	118 412
Impairment of investment in Cell C	**–**	2 521 152
	–	2 639 564
Included in other expenses, impairments and fair value movements and impairments on associates and joint ventures above are the following:		
Impairments, fair value and foreign exchange movements relating to Oxigen		
Expected credit loss on 2DFine loan	**42 387**	130 718
Expected credit loss on OSI loan	**9 175**	30 511
Foreign exchange gain on 2DFine loan	**(41 162)**	(28 552)
Foreign exchange gain on OSI loan	**(9 175)**	(5 732)
Surety receivable recognised	**(19 826)**	(29 998)
Foreign exchange losses and expected credit loss on financial guarantee contracts	**10 166**	62 132
Impairment of investment in OSI	**–**	118 412
	(8 435)	277 491
Impairments and fair value losses relating to Cell C		
Impairment of investment in Cell C	**–**	2 521 152
Fair value loss on SPV1 and SPV2	**48 694**	750 264
	48 694	3 271 416

* As a result of the discontinued operations, the Group has restated its comparative financial information. Refer to note 11 for details.

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.

	2020 R'000	Restated* 2019 R'000
Finance costs		
– Bank	**667**	842
– Loans and facilities	**203 378**	208 612
– Unwinding of contingent purchase price	**1 166**	3
– Related-party loans	**6**	149
– Other	**5 431**	5 875
– Fair value movement on put option	**7 654**	14 825
– Unwinding of lease liability	**11 686**	—
	229 988	230 306
Finance income		
– Bank	**(63 371)**	(26 924)
– Loans	**(4 738)**	(7 585)
– Related-party loans	**(2 153)**	(45 528)
– Other	**(5 205)**	(9 359)
– Discounting of receivables	**(2 708)**	(2 896)
	(78 175)	(92 292)
Net finance costs	**151 813**	138 014

* As a result of the discontinued operations, the Group has restated its comparative financial information. Refer to note 11 for details.

Notes to the Group annual financial statements continued

For the year ended 31 May 2020

1. RESULTS OF OPERATIONS continued

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*.

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

	Total			
	Attributable earnings		Cents per share	
	2020 R'000	2019* R'000	2020	2019*
Headline earnings per share				
Basic	521 313	(2 853 640)	58.16	(312.49)
Diluted[1]	521 313	—	57.44	—
Core	562 132	(2 783 155)	62.71	(304.77)
Earnings attributable to ordinary equity holders				
Basic	124 481	(6 646 383)	13.89	(727.81)
Diluted[1]	124 481	—	13.89	—

[1] There are no dilutive instruments in the prior year. As a result of the anti-dilutive instruments in discontinued operations, the total cents per share will not cast.

* As a result of the discontinued operations, the Group has restated its comparative financial information. Refer to note 11 for details.

(b) Weighted average number of shares

Weighted average number of shares	2020 '000	2019 '000
Weighted average number of ordinary shares	896 409	913 208
Adjusted for forfeitable shares	16 683	—
Weighted average number of ordinary shares for diluted earnings[1]	913 092	913 208

[1] There were no dilutive instruments in the prior year.

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	
2020 R'000	2019* R'000	2020	2019*	2020 R'000	2019* R'000	2020	2019*
436 747	(2 948 883)	48.73	(322.92)	84 566	95 243	9.43	10.43
436 747	—	47.83	—	84 566	—	9.43	—
469 113	(2 904 973)	52.33	(318.11)	93 019	121 818	10.38	13.34
						—	
226 786	(6 672 923)	25.30	(730.72)	(102 305)	26 540	(11.41)	2.91
226 786	—	24.84	—	(102 305)	—	(11.41)	—

Notes to the Group annual financial statements continued

For the year ended 31 May 2020

1. RESULTS OF OPERATIONS continued

1.5 Earnings per share continued

Core headline 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
2020				
Profit/(loss) attributable to equity holders of the parent	**518 349**	**(299 242)**	**(94 626)**	**124 481**
Profit on disposal of property, plant and equipment and intangible assets	**(13 460)**	**3 769**	**280**	**(9 411)**
Impairment of property, plant and equipment	**65 701**	**(2 044)**	**–**	**63 657**
Impairment of leased assets	**30 712**	**–**	**–**	**30 712**
Profit on disposal of subsidiary	**(528)**	**–**	**–**	**(528)**
Impairment of disposal groups	**53 232**	**–**	**–**	**53 232**
Impairment of goodwill	**259 170**	**–**	**–**	**259 170**
Headline earnings				**521 313**
2019*				
(Loss)/profit attributable to equity holders of the parent	(6 307 074)	(315 122)	(24 187)	(6 646 383)
Profit on disposal of property, plant and equipment	(1 155)	323	74	(758)
Impairment of property, plant and equipment	2 002	(561)	–	1 441
Impairment of intangible assets	5 111	(1 431)	–	3 680
Foreign currency translation reserve recycled to profit or loss	(144)	–	–	(144)
Impairments on investments	2 669 376	–	(7 378)	2 661 998
Fair value uplift on conversion from an associate to a subsidiary	(27 741)	–	–	(27 741)
Profit on disposal of property, plant and equipment in associate	(5 524)	–	–	(5 524)
Impairment of goodwill	124 400	–	–	124 400
Impairment of investment within associate equity-accounted earnings	47 174	–	–	47 174
Impairment of property, plant and equipment in associate	801 049	–	–	801 049
Impairment of intangible assets in associate	187 168	–	–	187 168
Headline earnings				(2 853 640)

* As a result of the discontinued operations, the Group has restated its comparative financial information. Refer to note 11 for details.

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**
500 835	**(219 752)**	**(54 297)**	**226 786**	**17 514**	**(79 490)**	**(40 329)**	**(102 305)**
(12 589)	**3 525**	**183**	**(8 881)**	**(871)**	**244**	**97**	**(530)**
7 303	**(2 044)**	**—**	**5 259**	**58 398**	**—**	**—**	**58 398**
—	**—**	**—**	**—**	**30 712**	**—**	**—**	**30 712**
—	**—**	**—**	**—**	**(528)**	**—**	**—**	**(528)**
—	**—**	**—**	**—**	**53 232**	**—**	**—**	**53 232**
213 583	**—**	**—**	**213 583**	**45 587**	**—**	**—**	**45 587**
			436 747				**84 566**
(6 384 164)	(278 449)	(10 310)	(6 672 923)	77 091	(36 674)	(13 877)	26 540
(1 159)	324	70	(765)	4	(1)	4	7
2 002	(561)	—	1 441	—	—	—	—
5 111	(1 431)	—	3 680	—	—	—	—
(144)	—	—	(144)	—	—	—	—
2 639 864	—	—	2 639 864	29 512		(7 378)	22 134
—	—	—	—	(27 741)	—	—	(27 741)
(5 524)	—	—	(5 524)	—	—	—	—
50 397	—	—	50 397	74 003	—	—	74 003
46 874	—	—	46 874	300	—	—	300
801 049	—	—	801 049	—	—	—	—
187 168	—	—	187 168	—	—	—	—
			(2 948 883)				95 243

Notes to the Group annual financial statements continued

For the year ended 31 May 2020

1. RESULTS OF OPERATIONS continued

1.5 Earnings per share continued

Core headline continued

(d) Analysis of core headline earnings

	Total		Continuing operations		Discontinued operations	
	2020 R'000	2019* R'000	**2020 R'000**	2019* R'000	**2020 R'000**	2019* R'000
Reconciliation between net profit for the period and core headline earnings for the period:						
Net profit for the period	**124 481**	(6 646 383)	**226 786**	(6 672 923)	**(102 305)**	26 540
Amortisation of intangibles raised through business combinations net of tax and non-controlling interest	**40 819**	70 485	**32 366**	43 910	**8 453**	26 575
Core net profit for the period	**165 300**	(6 575 898)	**259 152**	(6 629 013)	**(93 852)**	53 115
Headline earnings adjustments	**396 832**	3 792 743	**209 961**	3 724 040	**186 871**	68 703
Core headline earnings	**562 132**	(2 783 155)	**469 113**	(2 904 973)	**93 019**	121 818

* As a result of the discontinued operations, the Group has restated its comparative financial information. Refer to note 11 for details.

1. RESULTS OF OPERATIONS continued

1.6 Cash generated by operations

	2020 **R'000**	2019 R'000
Reconciliation of operating profit including discontinued operations to cash generated by operating activities:		
Operating profit from:		
– Continuing operations	**636 050**	86 845
– Discontinued operations	**9 083**	122 819
Adjustments for:		
Depreciation of property, plant and equipment	**78 924**	72 964
Depreciation on leased assets	**43 833**	—
Amortisation of intangible assets	**151 681**	203 429
Fair value gain on financial instruments	**(222 388)**	(18 765)
Fair value loss on financial instruments	**332 105**	873 877
Fair value uplift on conversion from an associate to a subsidiary	**—**	(27 741)
Impairment of goodwill relating to disposal groups	**53 232**	—
Impairment of intangible assets	**—**	5 111
Impairment of property, plant and equipment	**65 701**	2 002
Impairment of goodwill	**259 170**	124 400
Impairment of loans	**13 338**	163 663
Impairment of inventory	**43 038**	5 024
Impairment on leased assets	**30 712**	—
Discounting of receivables	**2 708**	2 647
Discounting of loans and other payables	**(7 654)**	(14 825)
Surety receivable recognised	**(19 826)**	(29 998)
Lease modification expense	**13 122**	—
Profit on disposal of property, plant and equipment	**(2 679)**	(761)
Profit on disposal of subsidiaries	**(528)**	—
Profit on disposal of intangible assets	**(10 746)**	—
Provision relating to the closure of WiConnect	**28 292**	—
Foreign currency translation reserve recycled on disposal of subsidiary	**—**	(144)
Equity compensation benefit expense	**9 358**	7 726
Net unrealised forex loss/(profit)	**10 166**	(34 284)
Changes in working capital (excluding the effects of acquisitions and disposals):		
Decrease/(increase) in inventories	**795 224**	(864 165)
Increase in trade and other receivables	**(147 642)**	(434 190)
(Decrease)/increase in trade and other payables	**(396 806)**	207 740
Increase in advances to customers	**(64 977)**	(22 087)
	1 702 491	431 287

Notes to the Group annual financial statements continued

For the year ended 31 May 2020

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. In the prior year, there were significant impairments on our associates, the details related to which are included in note 2.1.

Notes to the Group annual financial statements continued

For the year ended 31 May 2020

2. GROUP COMPOSITION continued

Critical accounting judgements and assumption continued

(c) Classification of significant joint arrangements

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

Blue Label Mexico S.A. de C.V.

The Group holds an effective interest of 47.56% in the issued ordinary share capital of Blue Label Mexico S.A. de C.V. The joint arrangement provides the Group and the other parties to the agreement with rights to the net assets of the entity. The investment is classified as a joint venture as unanimous approval of the shareholders is required for decisions.

(d) Classification of significant joint arrangements – prior year

2DFine Holdings Mauritius

The Group holds an effective interest of 50% in the issued ordinary share capital of 2DFine Holdings Mauritius. The joint arrangement provides the Group and the other parties to the agreement with rights to the net assets of the entity. The investment was classified as a joint venture as unanimous approval of the shareholders is required for decisions. In the current year, 2DFine Holdings Mauritius is no longer regarded as a significant joint arrangement. This is due to the investment being impaired to nil in the prior year and as at 31 May 2020 the investment is still carried at nil.

(e) 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.

(f) Classification of significant associates – prior year

Oxigen Services India Private Limited (Oxigen Services India) and Oxigen Online Services India Private Limited (Oxigen Online)

Blue Label Telecoms Limited (BLT) acting through its wholly owned subsidiary, Gold Label Investments Proprietary Limited (GLI), acquired a 50% interest in 2DFine Holdings Mauritius. BLT's investment through GLI is classified as a joint venture as unanimous approval of the shareholders is required for decisions. As at 31 May 2019, 2DFine Holdings Mauritius and GLI hold 33.89% and 41.90% respectively of Oxigen Services India. BLT therefore has an effective interest of 58.85% in Oxigen Services India.

Based on the nature of Oxigen Services India and Oxigen Online, management has concluded that the relevant activities (based on IFRS 10 paragraph B11 – B12) of these entities include:

- establishing budgets and business plans;
- determining or managing capital and obtaining funding; and
- appointing/terminating and remunerating key management personnel.

Decisions over these relevant activities are made by the majority vote of the board of directors. The ability of the shareholders to appoint directors to the board is dictated by the shareholders' agreement which requires:

- GLI (BLT wholly owned subsidiary) – up to a maximum of three directors;
- 2DFine (joint venture of BLT with Neptune) – up to a maximum of two directors; and
- Neptune (unrelated third party) – up to a maximum of three directors.

BLT is able to appoint three directors to the board and therefore does not have current rights that give it power over the investee (IFRS 10 paragraph B14 – B15). In addition to this, the shareholders' agreement dictates that the other shareholder, Neptune, has the power to appoint the managing director and chairman of the company with management control over the company and with responsibility of running the day-to-day affairs of the company.

2. GROUP COMPOSITION continued

Critical accounting judgements and assumption continued

(f) Classification of significant associates – prior year continued

Oxigen Services India Private Limited (Oxigen Services India) and Oxigen Online Services India Private Limited (Oxigen Online) continued

As the Group has no power over the investee, we have concluded that the Group has significant influence over the financial and operating policies of Oxigen Services India and Oxigen Online and accounts for these as associates even though the Group effectively owns more than 50%.

In the current year, Oxigen Services India and Oxigen Online are no longer regarded as significant associates. This is due to the investments being impaired to nil in the prior year and as at 31 May 2020 the investments are still carried at nil.

(g) 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.
- Management remains optimistic that the planned recapitalisation of Cell C will be successful. The recapitalisation is important to improve the capital structure of the company and the deferral of repayments that will support the long-term sustainability of Cell C. Stakeholders have appointed independent advisers to assist with the recapitalisation and/or debt restructuring process and formal engagements are ongoing.

Although no certainty exists around the successful implementation of the recapitalisation, management remains optimistic. Refer to note 11 – Fair value of the contingent consideration receivable for the probability applied by management in determining Cell C's liquidity and solvency.

On 4 August 2020 Cell C notified its noteholders that it defaulted on the payment of capital on its USD184 002 000 note 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.

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.

Notes to the Group annual financial statements continued

For the year ended 31 May 2020

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		Total investments and loans	
	2020 R'000	2019 R'000	**2020 R'000**	2019 R'000	**2020 R'000**	2019 R'000
Blue Label Mexico S.A. de C.V.	**138 234**	136 460	**—**	—	**138 234**	136 460
Other associates	**34 103**	31 325	**7 609**	3 635	**41 712**	34 960
Other joint ventures	**25 118**	24 797	**1 879**	22 625	**26 997**	47 422
	197 455	192 582	**9 488**	26 260	**206 943**	218 842
Disclosed as:						
– Non-current assets	**197 455**	192 582	**—**	26 260	**197 455**	218 842
– Current assets	**—**	—	**9 488**	—	**9 488**	—

2. GROUP COMPOSITION continued

2.1 Investments in and loans to associates and joint ventures continued

Loans to associates and joint ventures

		Total loans		Current		Non-current	
	Interest rate	2020 R'000	2019 R'000	2020 R'000	2019 R'000	2020 R'000	2019 R'000
SupaPesa South Africa Proprietary Limited*	11%	–	5 650	–	–	–	5 650
United Call Centre Solutions Proprietary Limited	0%	1 879	16 976	1 879	–	–	16 976
T3 Telecoms SA Proprietary Limited	0%	7 609	3 634	7 609	–	–	3 634
		9 488	26 260	9 488	–	–	26 260

* SupaPesa South Africa Proprietary Limited, a joint venture of Viamedia, was disposed of as part of the VAS operations sale transaction. Refer to note 11.

The loans as at 31 May 2020 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 associates and joint ventures are repayable on demand.

Notes to the Group annual financial statements continued

For the year ended 31 May 2020

2. GROUP COMPOSITION continued

2.1 Investments in and loans to associates and joint ventures continued

	Joint venture		Associate		Associate
Company	**Blue Label Mexico S.A. de C.V.**		**Cell C Limited**		**Oxigen Services Private Limited**
Principal activity	**Distributor of terminals to vend e-tokens of value**		**Network provider**		**Airtime and payment solutions provider**
Country of incorporation	**Mexico**		**South Africa**		**India**
	2020 R'000	2019 R'000	**2020 R'000**	2019 R'000	2019 R'000
Cost and share of reserves at the beginning of the year	**136 460**	136 801	**–**	6 095 459	207 188
Adjustment on the initial application of IFRS 9 and IFRS 15	**–**	–	**–**	35 189	(627)
Cost and share of reserves at the beginning of the year – restated for change in accounting standards	**136 460**	136 801	**–**	6 130 648	206 561
Acquisition of associates and joint ventures	**–**	–	**–**	–	–
Financial guarantee contracts raised (refer to note 3.6.3)	**–**	–	**–**	–	–
Share of (losses)/profits from associates and joint ventures	**(5 806)**	(24 096)	**–**	(3 609 496)	(109 572)
Share of results after tax	**(4 087)**	(22 461)	**–**	(3 599 120)	(109 090)
Amortisation of intangible assets	**(2 387)**	(2 271)	**–**	(14 411)	(669)
Deferred tax on intangible assets amortisation	**668**	636	**–**	4 035	187
Foreign currency translation reserve	**7 580**	23 755	**–**	–	21 423
Dividends received	**–**	–	**–**	–	–
Impairment	**–**	–	**–**	(2 521 152)	(118 412)
Disposed of	**–**	–	**–**	–	–
Conversion of associate to subsidiary	**–**	–	**–**	–	–
Cost and share of reserves at the end of the year	**138 234**	136 460	**–**	–	–
Loans to associates and joint ventures					
Loans at the beginning of the year	**–**	–	**–**	1 029 626	34 017
Adjustment on the initial application of IFRS 9	**–**	–	**–**	–	(16 704)
Loans at the beginning of the year – restated	**–**	–	**–**	1 029 626	17 313
Loans granted to associates and joint ventures	**–**	–	**–**	106 133	7 467
Loans repaid by associates and joint ventures	**–**	–	**–**	(1 135 759)	–
Impairment of loans**	**–**	–	**–**	–	(30 511)
Disposed of	**–**	–	**–**	–	–
Unrealised foreign exchange profit on loans to associates and joint ventures	**–**	–	**–**	–	5 731
Loans at the end of the year	**–**	–	**–**	–	–
Closing net book value	**138 234**	136 460	**–**	–	–
Share of (losses)/profits from associates and joint ventures	**(5 806)**	(24 096)	**–**	(3 609 496)	(109 572)
– From continuing operations	**(5 806)**	(24 096)	**–**	(3 609 496)	(109 572)
– From discontinuing operations	**–**	–	**–**	–	–

[1] 2DFine Group consists of 2DFine Holdings Mauritius and 2DFine Investments Mauritius.

* 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". In the current year, Oxigen Services Private Limited, Oxigen Online Services Private Limited and the 2DFine Group are all included in this category. The reason for the change from prior year is that they are not deemed by the directors to be of significance to the Groups' future strategy and operational efforts.

** The impairments on loans in the current year arise mainly on the foreign exchange gains on loans that are fully provided for.

Associate	Joint venture	Other associates*		Other joint ventures*		Total	
Oxigen Online Services Private Limited	2DFine Group[1]						
Online payment solutions provider	Investment holding company						
India	India						
2019 R'000	2019 R'000	**2020 R'000**	2019 R'000	**2020 R'000**	2019 R'000	**2020 R'000**	2019 R'000
–	–	**31 325**	87 975	**24 797**	40 245	**192 582**	6 511 906
–	–	**–**	(312)	**–**	(86)	**–**	34 164
–	(55 762)	**31 325**	87 663	**24 797**	40 159	**192 582**	6 546 070
	–	**–**	562	**–**	–	**–**	562
–	40 631	**–**	–	**–**	–	**–**	40 631
–	22 935	**1 582**	(5 192)	**19 224**	24 011	**15 000**	(3 701 410)
–	22 935	**2 720**	(4 156)	**19 224**	24 011	**17 857**	(3 687 881)
–	–	**(1 580)**	(1 439)	**–**	–	**(3 967)**	(18 790)
–	–	**442**	403	**–**	–	**1 110**	5 261
–	(7 804)	**2 041**	2 355	**1 177**	6 139	**10 798**	45 868
–	–	**–**	(1 992)	**(6 100)**	(16 000)	**(6 100)**	(17 992)
–	–	**–**	–	**–**	(29 512)	**–**	(2 669 076)
		(845)	–	**(13 980)**	–	**(14 825)**	–
–	–	**–**	(52 071)	**–**	–	**–**	(52 071)
–	–	**34 103**	31 325	**25 118**	24 797	**197 455**	192 582
–	100 837	**3 635**	–	**22 625**	37 825	**26 260**	1 202 305
–	(8 606)	**–**	–	**–**	(13 521)	**–**	(38 831)
–	92 231	**3 635**	–	**22 625**	24 304	**26 260**	1 163 474
–	9 934	**5 369**	3 685	**–**	–	**5 369**	127 219
–	–	**–**	–	**(17 311)**	(1 411)	**(17 311)**	(1 137 170)
–	(130 718)	**(10 570)**	(50)	**(40 058)**	(268)	**(50 628)**	(161 547)
–	–	**–**	–	**(5 765)**	–	**(5 765)**	–
–	28 553	**9 175**	–	**42 388**	–	**51 563**	34 284
–	–	**7 609**	3 635	**1 879**	22 625	**9 488**	26 260
–	–	**41 712**	34 960	**26 997**	47 422	**206 943**	218 842
–	22 935	**1 582**	(5 192)	**19 224**	24 011	**15 000**	(3 701 410)
–	22 935	**1 582**	1 122	**20 822**	25 676	**16 598**	(3 693 431)
–	–	**–**	(6 314)	**(1 598)**	(1 665)	**(1 598)**	(7 979)

Notes to the Group annual financial statements continued

For the year ended 31 May 2020

2. GROUP COMPOSITION continued

2.1 Investments in and loans to associates and joint ventures continued

	Joint venture		Associate		Associate	Associate	Joint venture
Company	**Blue Label Mexico S.A. de C.V.**		**Cell C Limited**		**Oxigen Services Private Limited**	**Oxigen Online Services Private Limited**	**2DFine Group**[1]
Principal activity	**Distributor of terminals to vend e-tokens of value**		**Mobile network**		**Airtime and payment solutions provider**	**Online payment solutions provider**	**Investment holding company**
Country of incorporation	**Mexico**		**South Africa**		**India**	**India**	**Mauritius**
Financial year-end*	**31 December**		**31 December**		**31 March**	**31 March**	**31 March**
	31 May 2020 R'000	31 May 2019 R'000	**31 May 2020 R'000**	31 May 2019 R'000	31 May 2019 R'000	31 May 2019 R'000	31 May 2019 R'000
Statement of financial position							
Non-current assets	**72 172**	38 293	**10 674 432**	19 865 013	591 159	23 033	173 183
Current assets	**197 566**	258 835	**4 966 723**	6 249 195	237 566	6 699	3 282
Cash and cash equivalents	**62 616**	97 014					686
Other current assets	**134 950**	161 821					2 596
	269 738	297 128	**15 641 155**	26 114 208	828 725	29 732	176 465
Total equity	**5 107**	16 883	**(8 012 705)**	2 674 170	(87 607)	(57 421)	(53 819)
Non-current liabilities	**1 093**	2 412	**4 844 963**	5 415 378	120 636	35 168	–
Current liabilities	**263 538**	277 833	**18 808 897**	18 024 660	795 696	51 985	230 284
Trade and other payables	**236 832**	277 833					2 330
Other current liabilities	**26 706**	–					227 954
	269 738	297 128	**15 641 155**	26 114 208	828 725	29 732	176 465
Effective percentage held	**47.56**	47.56	**45**	45	58.85	58.82	50
Net assets	**5 107**	16 883	**(8 012 705)**	2 674 170	(87 607)	(57 421)	(53 819)
Company net assets	**2 297**	10 683	**(15 312 635)**	(4 625 760)	(96 056)	(57 421)	(53 819)
Carrying value of purchase price allocations net of deferred taxation	**2 810**	6 200	**7 299 930**	7 299 930	8 449	–	–
Interest in associate and joint ventures	**2 429**	8 030	**(3 605 717)**	1 203 376	(55 093)	(33 777)	(26 910)
Goodwill	**135 805**	128 430	**1 317 776**	1 317 776	173 505	–	–
Accumulated impairment	**–**	–	**(2 521 152)**	(2 521 152)	(118 412)	–	–
Losses not guaranteed	**–**	–	**4 809 093**	–	–	33 777	26 910
Balance at the end of the year	**138 234**	136 460	**–**	–	–	–	–

[1] 2DFine Group consists of 2DFine Holdings Mauritius and 2DFine Investments Mauritius.

* 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.

2. GROUP COMPOSITION continued

2.1 Investments in and loans to associates and joint ventures continued

	Joint venture		Associate		Associate	Associate	Joint venture
Company	**Blue Label Mexico S.A. de C.V.**		**Cell C Limited**		**Oxigen Services Private Limited**	**Oxigen Online Services Private Limited**	**2DFine Group[1]**
Principal activity	**Distributor of terminals to vend e-tokens of value**		**Mobile network**		**Airtime and payment solutions provider**	**Online payment solutions provider**	**Investment holding company**
Country of incorporation	**Mexico**		**South Africa**		**India**	**India**	**Mauritius**
Financial year*	**1 June 2019 to 31 May 2020**	1 June 2018 to 31 May 2019	**1 June 2019 to 31 May 2020**	1 June 2018 to 31 May 2019	1 June 2018 to 31 May 2019	1 June 2018 to 31 May 2019	1 June 2018 to 31 May 2019
Statement of comprehensive income for the year ended							
Revenue	**3 190 290**	3 641 314	**14 593 152**	15 404 539	1 066 278	1 798	–
Operating profit before depreciation, amortisation and impairment charges	**8 333**	(23 044)					79 833
Depreciation, amortisation and impairment	**(26 275)**	(33 837)					–
Finance costs	**–**	–					(7 011)
Finance income	**4 554**	5 628					44
Net (loss)/profit before taxation	**(13 388)**	(51 253)	**(10 686 875)**	(3 852 965)	(188 882)	(80 027)	72 866
Taxation	**1 181**	590	**–**	(4 168 134)	1 121	–	–
Net (loss)/profit after taxation	**(12 207)**	(50 663)	**(10 686 875)**	(8 021 099)	(187 761)	(80 027)	72 866
Other comprehensive income/(loss)	**431**	8 491	**–**	–	3 542	–	(15 609)
Losses not guaranteed	**–**	–	**10 686 875**	–	–	80 027	–
Total comprehensive (loss)/income	**(11 776)**	(42 172)	**–**	(8 021 099)	(184 219)	–	57 257
Effective percentage held	**47.56**	47.56	**45**	45	58.85	58.82	50
Share of total comprehensive (loss)/income	**(5 601)**	(20 057)	**–**	(3 609 495)	(108 639)	–	28 629

[1] 2DFine Group consists of 2DFine Holdings Mauritius and 2DFine Investments Mauritius.

* 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.

Notes to the Group annual financial statements continued

For the year ended 31 May 2020

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.

Blue Label Mexico S.A. de C.V. (Blue Label Mexico)

Blue Label Telecoms is currently in the process of concluding the disposal of its 47.56% interest in Blue Label Mexico, the structure of which is yet to be finalised. Once completed, shareholders will be notified accordingly. As such, the fair value less cost to sell approach has been applied in determining the recoverable amount of Blue Label Mexico. Based on this method, the recoverable amount is sufficient to support the carrying value of the investment as at 31 May 2020.

The investment in Mexico is not classified as held-for-sale at 31 May 2020 due to the sales negotiations taking place after year-end.

Cell C Limited

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

	2020			2019		
	Average EBITDA margin %	**Terminal growth rate %**	**Discount rate %**	Average EBITDA margin %	Terminal growth rate %	Discount rate %
Cell C Limited	**22.6**	**4.0**	**19.6**	22.5	5.0	16.6

An independent third-party valuation specialist was appointed to determine the value of Cell C based on cash flow projections incorporated in the five-year Cell C 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 that did not exceed the expected long-term economic growth rate for the markets in which Cell C operates. 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 2020 remained at Rnil, attributable to the following:
A reduction of forecast EBITDA due to:
(a) Capital expenditure to be substituted with operational expenditure in line with the roaming agreement with MTN.
(b) A decline in the prepaid subscriber base from an average of 16.9 million subscribers at May 2019 to 12.8 million at May 2020.
(c) A decline in contract revenue cash flows.

The above cash flow reductions were offset in part by the following:
(a) A decrease in direct expenditure and operating costs congruent with servicing a reduced subscriber base as well as planned cost-optimisation initiatives.
(b) Lower lease payments due to the implementation of the MTN roaming agreement.

While the enterprise value calculated exceeded that of the prior year, the equity value declined by R0.84 billion due to higher debt levels and a lower probability assigned to the utilisation of tax losses at 31 May 2020.

Significant impairment of associates

Impairment of Cell C in the prior period

On 2 August 2017, Blue Label, through its wholly owned subsidiary, The Prepaid Company (TPC), acquired 45% of the issued share capital of Cell C for a purchase consideration of R5.5 billion.

For the year ended 31 May 2019, management appointed an independent third-party valuation specialist to determine the value-in-use based on cash flow projections incorporated in the five-year Cell C business plan. They applied assumptions relating to the business, the industry and economic growth. Cash flows beyond this point were then extrapolated, applying terminal growth rates that did not exceed the expected long-term economic growth rate.

2. GROUP COMPOSITION continued

2.1 Investments in and loans to associates and joint ventures continued

Significant impairment of associates continued

Impairment of Cell C in the prior period continued

TPC's share of the value-in-use as at 30 November 2018 amounted to R6.04 billion. The valuation declined to an Rnil value at 31 May 2019. This was primarily attributable to:

(a) A significant downward revision of the mobile subscriber base. The valuation at November 2018 was based on the assumption the compound annual growth rate (CAGR) forecast would average 9.3% per annum over a five-year period. In May 2019, the CAGR forecast was revised to an average of 4.6% per annum. This resulted in an originally expected 23.4 million subscribers after five years declining to a revised expectation of R17.9 million.
   - Cell C previously anticipating gaining approximately 6% additional market share by accessing new territories. Instead, Cell C's market share declined by approximately 2% from 16% at November 2018 to 14% at May 2019. This was in line with re-evaluating the inactive subscriber base and a loss of customers to competitors.
   - A deteriorating South African economy since November 2018, with an initial GDP forecast of 1.9% for the calendar year ended 2019 to a revised forecast contraction of 0.2%. Accordingly, the forecast GDP was adjusted downwards each year for the following four years. In addition, Business Monitor Intelligence revised its mobile subscriber growth in April 2019 from a CAGR of 2.2% for the period FY18 to FY23 to 1.8%.
   - Year-to-date trading being below budget.

(b) A substantial decline in forecast other revenue. This is largely due to a significant decline in equipment, Mobile Virtual Network Operator and Business Service Provider revenues over the five-year period in comparison to the initial forecast. Cell C had previously forecast gaining market share from its competitors. This did not materialise.

(c) Lower taxation benefit relating to capital allowances as a result of a revised forecast reduction in capital expenditure.

In determining the revised valuation, cognisance was taken of positive cash flow generation from:

(a) a decline in forecast direct expenditure on handset, SIM costs, ongoing commissions and discounts due to lower subscriber growth;

(b) a reduction in forecast payroll costs;

(c) a decline in capital expenditure due to cash flow constraints and lower subscriber base forecast; and

(d) a decrease in cash lease payments as a result of less network towers required due to the lower forecast of the subscriber base.

The impact of the transactions in progress relating to a national roaming agreement and the recapitalisation of Cell C were not in effect as at 31 May 2019 and as such were not accounted for in the valuation at that date.

As discussed under "Critical accounting judgements and assumptions", for purposes of the Group's annual financial statements, Cell C has been accounted for using the going concern assumption. The Group's share of Cell C's losses in the prior year has been recognised in "Equity losses through the share of (losses)/gains from associates and joint ventures" in the Group income statement. An impairment assessment was performed in the prior year on the Group's investment in Cell C which resulted in an impairment being recognised. This is included in the "Impairments on associates and joint venture" in the prior year Group income statement. The result of this impairment is that the investment in Cell C was carried at a nil valuation.

If Cell C was not a going concern the "Equity losses through the share of (losses)/gains from associates and joint ventures" in the prior year would have been a greater loss. However, there would be an equal and opposite reversal of the "Impairments on associates and joint venture" in the prior year. Therefore, if the going concern assumption was incorrect, there would have been no effect in the prior year Group income statement.

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

	2020 **R'000**	2019 R'000
Concentration of credit risk:		
Trade receivables	**1 266 899**	1 352 718
Payables due to Cell C:		
Trade payables	**(488 917)**	(1 212 392)
Financial liabilities at fair value through profit or loss	**(350 410)**	(301 716)

Notes to the Group annual financial statements continued

For the year ended 31 May 2020

2. GROUP COMPOSITION continued

2.1 Investments in and loans to associates and joint ventures continued

Significant impairment of associates 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 could have been required by the consortium to purchase such inventory from the consortium on a piecemeal basis over a specified period that has been 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 will result in the Cell C facility reducing to nil by 28 February 2021. As at 31 May 2020, the above funding had declined to R959 million (2019: R1.25 billion) as a result of BLT purchasing from the security airtime.

It is the intention of The Prepaid Company to accelerate payments to the banking consortium in order to distribute the vault stock in full if there is risk/indication that Cell C will not be able to meet its obligations to the banking consortium. The fair value of the financial guarantee issued in respect of Cell C's facility was valued to be insignificant taking into account the inventory held as collateral.

Management has performed detailed assessments considering seasonality of trading and has determined that, based on current inventory holdings and anticipated sales cycles, should circumstances dictate the need to purchase the above mentioned inventory from the consortium, acceleration of such payments could result in the debt being expunged within two and a half months through its trading capabilities in the ordinary course of business at normal operating margins.

Critical accounting judgements and assumptions

Financial guarantee

As explained above under "Financial guarantee in respect of Cell C's facility", Cell C procured R1.4 billion of funding in August 2018 and utilised a portion of this funding to repay the R1.029 billion loan that was due to The Prepaid Company as at that date. Since the Group was a party to this new funding agreement, the Group considered whether it met the derecognition requirements of IFRS 9 for the loan receivable from Cell C. Specifically, the Group considered whether the loan receivable was extinguished and replaced with a new financial instrument, or whether this represented the continuation of the Group's loan receivable from Cell C. The Group applied its judgement, and concluded that the R1.4 billion of funding represented a new financial instrument and therefore derecognised the loan receivable from Cell C. The qualitative factors that the Group considered in making this judgement included the fact that the original term of the loan receivable had come to an end and the new funding was for a different period of time compared to the initial term, an increase in the amount of the borrowing, a change in the interest rate from variable to fixed and changes to the repayment schedule from a bullet repayment schedule to an amortising repayment schedule.

Management is of the view that the purchasing of such inventory will not result in an onerous contract as this inventory is capable of being realised in the ordinary course of business without any negative impact being incurred by The Prepaid Company.

Impairment of Oxigen Services India and Oxigen Online in the prior year

Oxigen Services India and Oxigen Online were tested for impairment by comparing the recoverable amount against the carrying value of these investments. The recoverable amount is the higher of fair value less cost of disposal and the value-in-use. For Oxigen Services India and Oxigen Online the fair value less cost of disposal was higher than the value-in-use given the uncertainties around the future cash flow projections due to lack of funding. In order to calculate the fair values, the finance department of the Group includes a team that outsources the valuations to qualified independent third-party valuation specialists required for financial reporting purposes, including level 3 fair values. This team reports directly to the Financial Director (FD) and the Audit, Risk and Compliance Committee (ARCC).

2. GROUP COMPOSITION continued

2.1 Investments in and loans to associates and joint ventures continued

Impairment of Oxigen Services India and Oxigen Online in the prior year continued

For Oxigen Services India and Oxigen Online, the fair value less cost of disposal was calculated by utilising relevant information generated by similar market transactions that have been concluded by comparable businesses. The fair value was based on a multiple applied to gross revenue, based on the same principles adopted by similar business to that of the Oxigen Services Group, that was recently disposed of. This market approach provides the Group with more reliable evidence to support the valuation. The revenue multiple of 3.6 was applied in determining the fair value. The assumptions and inputs used in calculating the fair value less cost to sell were regarded as level 3 fair value estimates.

The fair value of the 2DFine Group is based on its share of the fair value of Oxigen Services India and Oxigen Online less the liabilities of the 2DFine Group.

The corporate transaction, referred to in the 30 November 2018 interim results, did not materialise, and the resultant lack of funding necessitated BLT to impair its full investment of R118 million in the Oxigen Group. The full value of loans to Oxigen Services India of R30 million and 2DFine Holdings Mauritius of R101 million, net of a surety asset raised, was impaired. In addition, the Group accounted for a R103 million liability relating to financial guarantee contracts as at 31 May 2019. A portion of this financial liability (R44.2 million) was called upon and paid out in the current financial year. The balance of the remaining financial guarantee contract after taking into account movements due to foreign exchange is R87.6 million as at 31 May 2020.

Although alternative negotiations are in progress with other potential investors, until such time as a transaction is completed, the lack of cash resources will inhibit its propensity for growth.

The recoverable amount was calculated to be Rnil. The following were the key inputs in determining the recoverable amount:

- uncertainty of future funding;
- adverse trading conditions; and
- discontinuation of certain revenue streams.

Shares in associates converted to subsidiary in the prior year

		Date disposed	Effective percentage
WiConnect Proprietary Limited (previously called Lornanox Proprietary Limited)	Associate	31 July 2018	40%

On 31 July 2018, the Group acquired the remaining 60% in WiConnect Proprietary Limited (previously called Lornanox Proprietary Limited) for R5 million.

Contingent liabilities

BLT's co-shareholder in BLM, Grupo Bimbo S.A.B de C.V. (Bimbo) has guaranteed the performance of BLM's obligation to Radiomovil Dipsa S.A. de C.V. (trading as Telcel) (Telcel). BLT has in turn provided Bimbo with a back-to-back guarantee in terms of which BLT shall reimburse Bimbo a percentage (prorate to the respective parties' shareholding in BLM) of any liability incurred by BLM in terms of its trade agreement with Telcel. At year-end, there is no amount due to Telcel by BLM.

There are no other contingent liabilities relating to the Group's interest in joint ventures.

For details on related-party transactions, refer to note 8.

Notes to the Group annual financial statements continued

For the year ended 31 May 2020

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	TJ Group[1]		Glocell Distribution Proprietary Limited[5]	
Principal place of business	RSA		RSA	
Segment	Africa Distribution		Africa Distribution	
	2020	2019	**2020**	2019
NCI (%)	**40**	40	**52**	52
	R'000	R'000	**R'000**	R'000
Non-current assets	**31 136**	14 805	**40 195**	64 513
Current assets	**89 309**	76 305	**119 007**	125 170
Total assets	**120 445**	91 110	**159 202**	189 683
Capital and reserves	**95 708**	86 736	**(24 295)**	(84 109)
Non-current liabilities	**11 675**	527	**7 419**	128 691
Current liabilities	**13 062**	3 847	**176 078**	145 101
Total equity and liabilities	**120 445**	91 110	**159 202**	189 683
Accumulated NCI[4]	**38 283**	34 694	**(12 633)**	(43 737)
Summarised statement of comprehensive income for the year ended 31 May[6]				
Revenue	**119 760**	101 316	**1 486 490**	3 623 772
Total comprehensive income/(loss) for the year	**28 972**	27 657	**59 815**	10 435
Comprehensive income/(loss) allocated to NCI	**11 589**	11 063	**31 104**	5 426
Summarised cash flows for the year ended 31 May[6]				
Cash flows from operating activities	**47 308**	39 821	**35 837**	20 806
Cash flows to investing activities	**(7 528)**	(26 907)	**9 184**	(8 324)
Cash flows to financing activities	**(18 442)**	(15 947)	**(3 608)**	(11 267)
Net increase/(decrease) in cash and cash equivalents	**21 338**	(3 033)	**41 413**	1 215
Dividends paid to NCI	**8 000**	6 000	**–**	–

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

[2] Shareholding increased to 100% on 15 January 2020.

[3] These entities were disposed of as part of the VAS operations sale transaction. Refer to note 11.

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

[5] Management has applied its judgement in concluding that The Prepaid Company Proprietary Limited (TPC), a wholly owned subsidiary of Blue Label Telecoms Limited, has 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 incurral 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.

[6] Reware Proprietary Limited has been disclosed up until 15 January 2020 and the VAS operations up until 30 April 2020.

Blue Label Data Solutions		Reware Proprietary Limited[2]		Airvantage Proprietary Limited[3]		AV Technology Limited[3]		Viamedia Proprietary Limited[3]	
RSA		RSA		RSA		Mauritius		RSA	
Solutions		Africa Distribution		Africa Distribution		International		Mobile	
2020	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
19	19	**49.6**	49.6	**49**	40	**49**	40	**15**	25
R'000	R'000	**R'000**	R'000	**R'000**	R'000	**R'000**	R'000	**R'000**	R'000
26 385	11 787	**–**	7 255	**–**	171 566	**–**	70 221	**–**	80 716
66 219	90 547	**–**	8 215	**–**	85 613	**–**	32 922	**–**	64 598
92 604	102 334	**–**	15 470	**–**	257 179	**–**	103 143	**–**	145 314
68 362	52 294	**–**	(32 729)	**–**	198 852	**–**	82 900	**–**	119 126
1 640	234	**–**	–	**–**	45 810	**–**	17 818	**–**	13 307
22 602	49 807	**–**	48 199	**–**	12 517	**–**	2 425	**–**	12 881
92 604	102 334	**–**	15 470	**–**	257 179	**–**	103 143	**–**	145 314
12 989	9 936	**–**	(16 229)	**–**	79 541	**–**	33 160	**–**	29 782
	–								
189 681	202 679	**3 847**	47 066	**123 285**	88 629	**37 177**	35 013	**65 747**	172 118
46 068	49 496	**(3 865)**	(29 774)	**59 588**	21 582	**20 972**	24 751	**8 478**	767
8 753	9 404	**(1 916)**	(14 764)	**29 198**	8 633	**10 277**	9 900	**1 272**	192
	–								
44 032	18 110	**(2 022)**	(5 036)	**77 212**	36 524	**9 808**	(57 033)	**26 323**	27 487
24 242	(23 114)	**110**	68	**(10 643)**	(7 910)	**(60)**	(60)	**16 250**	12 435
(52 882)	9 188	**498**	6 557	**(51 240)**	(11 159)	**(10 846)**	–	**(44 138)**	(50 000)
15 392	4 184	**(1 414)**	1 589	**15 329**	17 455	**(1 098)**	(57 093)	**(1 565)**	(10 078)
5 700	6 650	**–**	–	**19 326**	–	**4 338**	–	**21 889**	12 500

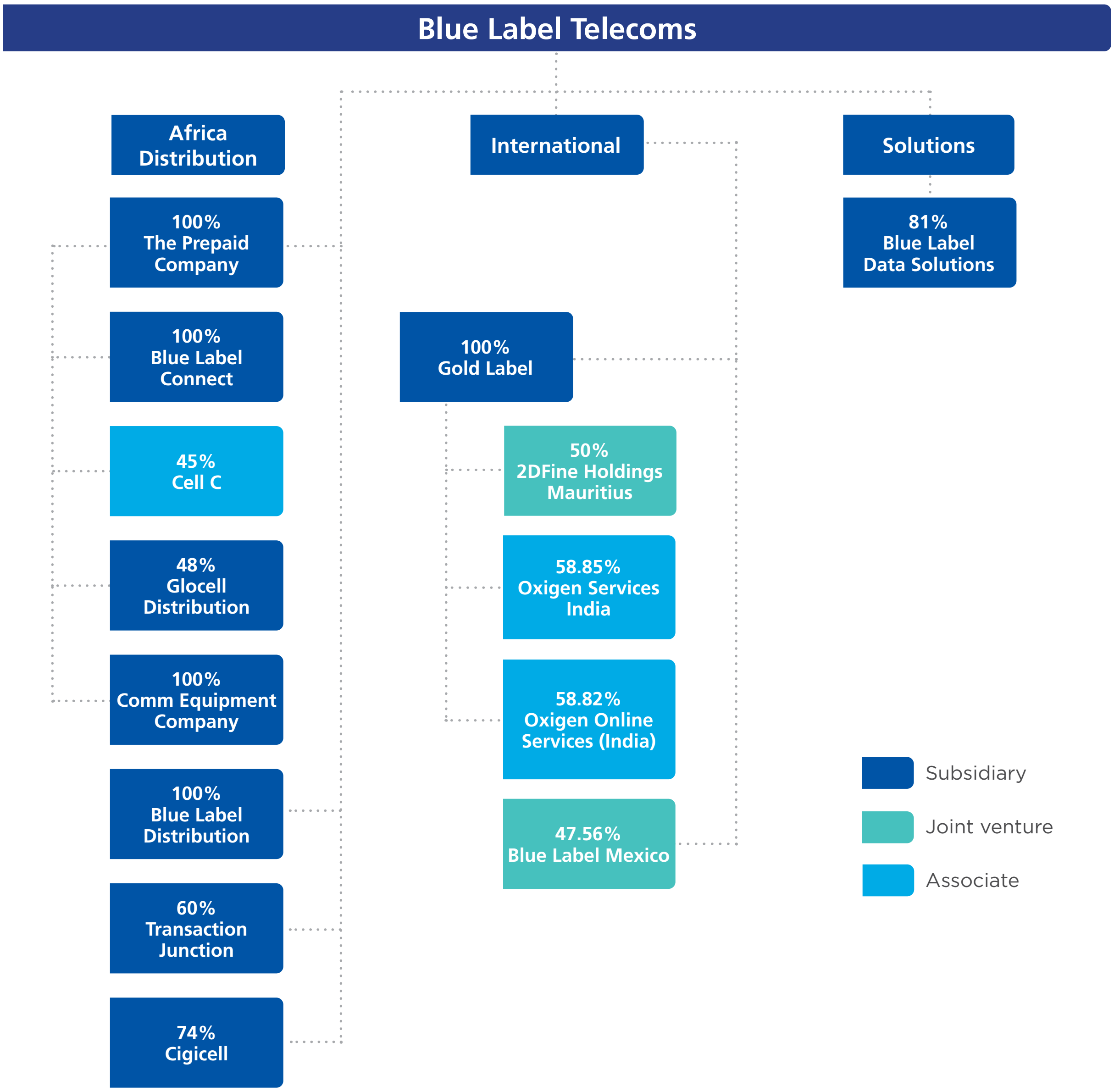
Notes to the Group annual financial statements continued

For the year ended 31 May 2020

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 principle activities of the Group are conducted through the following significant entities to the Group:


Blue Label Telecoms
Africa Distribution
International
Solutions
100% The Prepaid Company
100% Blue Label Connect
45% Cell C
48% Glocell Distribution
100% Comm Equipment Company
100% Blue Label Distribution
60% Transaction Junction
74% Cigicell
100% Gold Label
50% 2DFine Holdings Mauritius
58.85% Oxigen Services India
58.82% Oxigen Online Services (India)
47.56% Blue Label Mexico
81% Blue Label Data Solutions
Subsidiary
Joint venture
Associate

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

2. GROUP COMPOSITION continued

2.4 Disposal of subsidiaries

	14 February 2020	30 April 2020
Date disposed		
% disposed	100%	85%

	3G Mobile R'000	VAS operations R'000	Total R'000
Carrying/fair value of subsidiaries disposed of excluding goodwill (refer to note 11)	479 746	390 965	870 711
Non-controlling interest	—	(156 654)	(156 654)
Carrying/fair value of net assets disposed of excluding goodwill	479 746	234 311	714 057
Goodwill	25 731	234 560	260 291
Carrying/fair value of net assets disposed of	505 477	468 871	974 348
Gain/(loss) on disposal of subsidiaries (before FCTR release)	38 523	(91 530)	(53 007)
Total proceeds on disposal	544 000	377 341	921 341
Less: Proceeds used to settle loans	—	44 626	44 626
Less: Contingent consideration	—	(71 967)	(71 967)
Total proceeds on disposal received in cash	544 000	350 000	894 000
Less: Cash and cash equivalents in subsidiaries	(85 304)	(110 361)	(195 665)
Cash inflow on disposal	458 696	239 639	698 335

Effective on 14 February 2020, Blue Label Telecoms Limited sold its 100% shareholding in 3G Mobile Proprietary Limited to a third party for an amount of R544 million. The profit on disposal, before tax and reclassification of foreign currency translation reserve of R57.8 million has been recognised in the statement of comprehensive income.

Effective on 30 April 2020, Blue Label Telecoms Limited sold its 85% shareholding in Blue Label Mobile Proprietary Limited to a third party for an amount of R450 million. R350 million of the selling price of R450 million was received. The remaining R100 million plus interest thereon is contingent upon Cell C's solvency and liquidity being proven (refer to note 11). The loss on disposal, before tax and reclassification of foreign currency translation reserve of R22.5 million has been recognised in the statement of comprehensive income.

Notes to the Group annual financial statements continued

For the year ended 31 May 2020

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 liabilities

- Borrowings
- Trade and other payables
- 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 FVOCI (the Group does not currently hold any FVOCI instruments); and equity investments that are held-for-trading.

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 FVTPL.

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.

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.
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.

Notes to the Group annual financial statements continued

For the year ended 31 May 2020

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

	2020 R'000	2019 R'000
Financial assets		
Trade and other receivables*	3 475 089	3 812 824
Cash and cash equivalents	2 014 917	1 385 596
Loans to associates and joint ventures (refer to note 2.1)	9 488	26 260
Loans receivable	72 120	147 526
Advances to customers	1 682 075	1 617 097
Financial assets at fair value through profit or loss	249 538	289 742
	7 503 227	7 279 045
Financial liabilities		
Interest-bearing borrowings	2 305 209	3 200 408
Non-interest-bearing borrowings	13 952	35 876
Trade and other payables*	4 553 659	5 232 241
Lease liability	141 123	—
Derivative liability	77 524	—
Put option liability	—	158 638
Contingent consideration	—	1 923
Liquidity support	350 410	301 716
Other financial liabilities at fair value through profit or loss	7 152	—
Financial guarantee contracts	201 474	243 492
Bank overdraft	192	7 843
	7 650 695	9 182 137
Net financial position	(147 468)	(1 903 092)

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

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

Classes of financial instruments continued

Reconciliation of financial assets and non-financial assets

	2020			2019		
	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	**72 120**	**72 120**	**–**	147 526	147 526	–
Trade and other receivables	**3 929 743**	**3 475 089**	**454 654**	4 257 266	3 812 824	444 442
Advances to customers	**1 682 075**	**1 682 075**	**–**	1 617 097	1 617 097	–
Cash and cash equivalents	**2 014 917**	**2 014 917**	**–**	1 385 596	1 385 596	–
Financial assets at fair value through profit or loss	**249 538**	**249 538**	**–**	289 742	289 742	–
Loans to associates and joint ventures	**9 488**	**9 488**	**–**	26 260	26 260	–
	7 957 881	**7 503 227**	**454 654**	7 723 487	7 279 045	444 442

Reconciliation of financial liabilities and non-financial liabilities

	2020			2019		
	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	**2 305 209**	**2 305 209**	**–**	3 200 408	3 200 408	–
Non-interest-bearing borrowings	**13 952**	**13 952**	**–**	35 876	35 876	–
Trade and other payables	**4 611 643**	**4 553 659**	**57 984**	5 369 463	5 232 241	137 222
Lease liability	**141 123**	**141 123**	**–**	–	–	–
Derivative liability	**77 524**	**77 524**	**–**	–	–	–
Put option liability	**–**	**–**	**–**	158 638	158 638	–
Contingent consideration	**–**	**–**	**–**	1 923	1 923	–
Liquidity support	**350 410**	**350 410**	**–**	301 716	301 716	–
Other financial liabilities at fair value through profit or loss	**7 152**	**7 152**	**–**	–	–	–
Financial guarantee contracts	**201 474**	**201 474**	**–**	243 492	243 492	–
Bank overdraft	**192**	**192**	**–**	7 843	7 843	–
	7 708 679	**7 650 695**	**57 984**	9 319 359	9 182 137	137 222

Notes to the Group annual financial statements continued

For the year ended 31 May 2020

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

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:

	2020 **R'000**	2019 R'000
Financial assets		
Trade and other receivables	**3 475 089**	3 812 824
Cash and cash equivalents	**2 014 917**	1 385 596
Loans to associates and joint ventures	**9 488**	26 260
Loans receivable	**72 120**	147 526
Advances to customers	**1 682 075**	1 617 097
	7 253 689	6 989 303

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 Baa3 or better, or cash on hand. ECL of 0%;

Group 2: Fully performing with a Moody's rating of Baa3 or better;

Group 3: Fully performing with a Moody's rating of between Ba1 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.

	2020 **R'000**	2019 R'000
Counterparties with external credit rating		
Group 1	**2 014 917**	1 385 596
Group 2	**—**	—
Group 3	**—**	—
Group 4	**—**	—
Total	**2 014 917**	1 385 596

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 no external credit ratings are available. Equivalent credit ratings were based on the latest Moody's default ratings. 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 who are highly collateralised, with no external credit ratings. ECL range of 0% to 4.24% (2019: 0% to 0.75%);

Group 2: Fully performing counterparties, with a credit rating equivalent to a Moody's rating of B1 or better. ECL range of 4.24% to 5.92% (2019: 0.75% to 3.3%);

Group 3: Fully performing counterparties, with a credit rating equivalent to a Moody's rating of between B2 and Caa2. ECL range of 5.92% to 52.6% (2019: 3.3% to 15.49%); and

Group 4: Counterparties who are considered to be in default and have an equivalent Moody's rating of Ca or lower. ECL of 52.6% to 100% (2019: 15.49% to 100%).

	2020 **R'000**	2019 R'000
Counterparties without external credit rating		
Group 1	**1 682 075**	1 617 097
Group 2	**71 495**	102 350
Group 3	**9 544**	71 075
Group 4	**569**	361
Total	**1 763 683**	1 790 883

The Group's maximum credit risk exposure is the carrying amount of all financial assets on the statement of financial position and sureties provided with the maximum amount the Group could have to pay if the sureties are called on, amounting to R200.8 million (2019: R268.6 million). A financial guarantee contract liability, included in the maximum credit risk exposure above, of R201.5 million (2019: R243.5 million) has been raised in the Group's statement of financial position at year-end. Refer to note 3.6.3.

Impact of COVID-19

The impact of COVID-19 on the ECLs recognised in the current financial year has been considered across all financial assets exposed to counterparty credit risk. COVID-19 has resulted in the Group experiencing a general increase in allowances raised for ECLs of approximately 9%. 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. COVID-19 overlays were determined for each impacted financial asset utilising a data-driven approach with the relevant information sourced from Moody's Analytics.

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% 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.

Notes to the Group annual financial statements continued

For the year ended 31 May 2020

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

3.1 Credit risk continued

Impact of COVID-19 continued

The advent of COVID-19 has had a fundamental impact on the economy in general with an exaggerated impact on credit risk. Moody's Analytics updated its forecasts to reflect this risk 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. It recommends continuing to apply the Baseline, S1 and S3 GCorr scenarios weighted 40%, 30% and 30% (these scenarios have been adjusted to reflect the change in risk). We have calculated the 2020 financial year ECL scenarios based on a GCorr weighting of 10%, 20% and 70%. This scenario represents a significant bias towards a downside view by the higher weighting to S3, and thus the Group considers this to sufficiently have integrated the impact of COVID-19 into the ECLs calculated. The Baseline forecast reflects a contraction of more than 8% in GDP between the fourth quarter of 2019 and the third quarter of 2020, with the S3 GCorr weighting further amplifying this contraction.

(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. A large portion of the Group's revenues are generated in South Africa, with other operations in India as well as Mexico. There are no other significant geographical concentrations of credit risk. 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 has been revised to be in line with 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, major retailers, independent and informal retail customers, petroleum forecourts, municipalities, private utilities and cellular networks. The balance of the customer base is widely dispersed.

(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 credit risk with Investec Bank Limited in line with its treasury function. Investec Bank Limited has a credit rating of Baa3 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, India and Mauritius. 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 2020 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 2020				
Loans advanced to counterparties without external ratings included in:				
Group 3	**11 053**	**(1 565)**	**9 488**	**(14.16)**
Group 4	**310 381**	**(310 381)**	**—**	**(100.00)**
	321 434	**(311 946)**	**9 488**	
31 May 2019				
Loans advanced to counterparties without external ratings included in:				
Group 2	26 450	(190)	26 260	(0.72)
Group 4	268 892	(268 892)	—	(100.00)
	295 342	(269 082)	26 260	

(iv) Loans receivable

The Group has provided loans to third parties who are seen as product distributors in order to expand our 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 2020 for loans receivable is determined as follows:

	Gross R'000	Impairment R'000	Net R'000	Average ECL/ impairment ratio %
31 May 2020				
Loans advanced to counterparties without external ratings included in:				
Group 2	**74 700**	**(3 205)**	**71 495**	**(4.29)**
Group 3	**60**	**(4)**	**56**	**(6.67)**
Group 4	**16 312**	**(15 743)**	**569**	**(96.51)**
	91 072	**(18 952)**	**72 120**	
31 May 2019				
Loans advanced to counterparties without external ratings included in:				
Group 2	77 223	(1 134)	76 089	(1.47)
Group 3	73 577	(2 503)	71 074	(3.40)
Group 4	2 733	(2 370)	363	(86.72)
	153 533	(6 007)	147 526	

Notes to the Group annual financial statements continued

For the year ended 31 May 2020

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, which provides financing for cellular handsets and other devices. This customer base is widely dispersed throughout South Africa and no significant concentrations of credit risk have been noted. The business model of this financing arrangement indirectly exposes the Group to the credit risk of Cell C Proprietary Limited. However, management believes it has effectively mitigated this risk through the operational model utilised as well as the very high collateral requirements contractually in place, as detailed below:

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

The Group calculates an ECL on this portfolio in accordance with the general model in IFRS 9 to which Group policy has been aligned. In light of the significant collateral arrangements in place, the ECL on this portfolio is not significant and well within the Group's tolerances. Refer to note 3.5.3.

The loss allowance as at 31 May 2020 for advances to customers is determined as follows:

	Gross R'000	Impairment R'000	Net R'000	Average ECL/ impairment ratio %
31 May 2020				
Advances to customers without external ratings included in:				
Group 1	**1 687 564**	**(5 489)**	**1 682 075**	**(0.33)**
	1 687 564	**(5 489)**	**1 682 075**	
31 May 2019				
Advances to customers without external ratings included in:				
Group 1	1 619 965	(2 868)	1 617 097	(0.18)
	1 619 965	(2 868)	1 617 097	

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.

Included in 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 general impairment model has been applied to advances to customers. The Group applies the simplified approach using a provision matrix to determine the ECL for trade and other receivables. This results in calculating lifetime ECLs for trade and other receivables.

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

3.1 Credit risk continued

Expected credit losses continued

Provision matrix

ECLs are calculated by applying a loss ratio to the aged balance of trade 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. Trade 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, 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 trade receivables at the reporting period to the extent that there is a strong correlation between the forward looking information and the ECL. In the prior year, in most instances no material adjustments were made due to the inclusion of forward looking information as the majority of trade receivables are settled within a relatively short period (under 60 days on average). In the current year, forward looking adjustments were made predominately as a result of the impact of COVID-19 among other factors. Refer to the "Impact of COVID-19" noted above.

The Group used 48 to 60 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 circumstance 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.

Notes to the Group annual financial statements continued

For the year ended 31 May 2020

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

3.1 Credit risk continued

Expected credit losses continued

The loss allowance as at 31 May 2020 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 2020				
Fully performing receivables				
Trade receivables arising on revenue from contracts with customers				
Banks	230 622	(314)	230 308	(0.14)
Independent and informal retail customers	935 615	(3 737)	931 878	(0.40)
Formal market retail customers	371 560	(3 803)	367 757	(1.02)
Customers in the petroleum sector	87 155	(159)	86 996	(0.18)
Receivables for starter packs	19 074	(311)	18 763	(1.63)
Cell C	1 728	(14)	1 714	(0.81)
Other cellular networks	44 152	(20)	44 132	(0.05)
Municipalities and private utilities	62 874	–	62 874	–
Associates, joint ventures and related parties	485	–	485	–
Trade receivables arising on financing transactions				
Cell C	1 253 602	(2 673)	1 250 929	(0.21)
Other	15 417	(432)	14 985	(2.80)
Sundry receivables	212 279	(1 473)	210 806	(0.69)
Past due receivables				
Trade receivables arising on revenue from contracts with customers				
Banks				
Past due by 1 to 30 days	–	–	–	–
Past due by 31 to 60 days	–	–	–	–
Past due by 61 to 90 days	283	(2)	281	(0.71)
Past due by more than 90 days	519	(519)	–	(100.00)
Independents and informal retail customers				
Past due by 1 to 30 days	12 247	(858)	11 389	(7.01)
Past due by 31 to 60 days	4 873	(843)	4 030	(17.30)
Past due by 61 to 90 days	4 403	(656)	3 747	(14.90)
Past due by more than 90 days	53 573	(38 956)	14 617	(72.72)
Formal market retail customers				
Past due by 1 to 30 days	3 633	(4)	3 629	(0.11)
Past due by 31 to 60 days	3 508	(16)	3 492	(0.46)
Past due by 61 to 90 days	1 681	(21)	1 660	(1.25)
Past due by more than 90 days	65 960	(65 960)	–	(100.00)

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

3.1 Credit risk continued

Expected credit losses 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	256	(4)	252	(1.56)
Past due by 31 to 60 days	611	(15)	596	(2.45)
Past due by 61 to 90 days	987	(29)	958	(2.94)
Past due by more than 90 days	5 266	(5 266)	—	(100.00)
Receivables for starter packs				
Past due by 1 to 30 days	86 787	(1 207)	85 580	(1.39)
Past due by 31 to 60 days	53 896	(796)	53 100	(1.48)
Past due by 61 to 90 days	11	(9)	2	(81.82)
Past due by more than 90 days	237	(237)	—	(100.00)
Cell C				
Past due by 1 to 30 days	3 307	(60)	3 247	(1.81)
Past due by 31 to 60 days	904	(27)	877	(2.99)
Past due by 61 to 90 days	5 218	(205)	5 013	(3.93)
Past due by more than 90 days	2 140	(2 140)	—	(100.00)
Other cellular networks				
Past due by 1 to 30 days	2 091	(2)	2 089	(0.10)
Past due by 31 to 60 days	1 636	(5)	1 631	(0.31)
Past due by 61 to 90 days	97	—	97	—
Past due by more than 90 days	30	(30)	—	(100.00)
Municipalities and private utilities				
Past due by 1 to 30 days	30 195	—	30 195	—
Past due by 31 to 60 days	8 741	—	8 741	—
Past due by 61 to 90 days	4 035	—	4 035	—
Past due by more than 90 days	16 355	(1 899)	14 456	(11.61)
Associates, joint ventures and related parties				
Past due by 1 to 30 days	—	—	—	—
Past due by 31 to 60 days	—	—	—	—
Past due by 61 to 90 days	—	—	—	—
Past due by more than 90 days	—	—	—	—
	3 608 043	(132 702)	3 475 341	(3.68)

Notes to the Group annual financial statements continued

For the year ended 31 May 2020

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

3.1 Credit risk continued

Expected credit losses continued

Ageing and impairment analysis continued

	Gross R'000	Impairment R'000	Net R'000	Average ECL/ impairment ratio %
31 May 2019				
Fully performing receivables				
Trade receivables arising on revenue from contracts with customers				
Banks	71 899	(2)	71 897	—
Independent and informal retail customers	733 768	(2 445)	731 323	(0.33)
Formal market retail customers	403 736	(9 476)	394 260	(2.35)
Customers in the petroleum sector	59 977	(3)	59 974	(0.01)
Receivables for starter packs	130 604	(233)	130 371	(0.18)
Cell C	26 199	(292)	25 907	(1.11)
Other cellular networks	95 935	(27)	95 908	(0.03)
Municipalities and private utilities	64 696	—	64 696	—
Associates, joint ventures and related parties	2 740	—	2 740	—
Trade receivables arising on financing transactions				
Cell C	1 325 303	(2 346)	1 322 957	(0.18)
Other	214 742	(2 419)	212 323	(1.13)
Sundry receivables	186 354	—	186 354	—
Past due receivables				
Trade receivables arising on revenue from contracts with customers				
Banks				
Past due by 1 to 30 days	3 524	(144)	3 380	(4.09)
Past due by 31 to 60 days	4 098	(132)	3 966	(3.22)
Past due by 61 to 90 days	1 404	(27)	1 377	(1.92)
Past due by more than 90 days	2 555	(1 273)	1 282	(49.82)
Independents and informal retail customers				
Past due by 1 to 30 days	62 190	(1 277)	60 913	(2.05)
Past due by 31 to 60 days	11 416	(1 701)	9 715	(14.90)
Past due by 61 to 90 days	8 243	(108)	8 135	(1.31)
Past due by more than 90 days	42 664	(41 195)	1 469	(96.56)
Formal market retail customers				
Past due by 1 to 30 days	92 191	(4 315)	87 876	(4.68)
Past due by 31 to 60 days	8 445	(110)	8 335	(1.30)
Past due by 61 to 90 days	14 324	(875)	13 449	(6.11)
Past due by more than 90 days	17 175	(16 522)	653	(96.20)

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

3.1 Credit risk continued

Expected credit losses 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	1 982	—	1 982	—
Past due by 31 to 60 days	305	(1)	304	(0.33)
Past due by 61 to 90 days	380	—	380	—
Past due by more than 90 days	5 086	(5 011)	75	(98.53)
Receivables for starter packs				
Past due by 1 to 30 days	81 918	(233)	81 685	(0.28)
Past due by 31 to 60 days	98	(14)	84	(14.29)
Past due by 61 to 90 days	6	(1)	5	(16.67)
Past due by more than 90 days	341	(341)	—	(100.00)
Cell C				
Past due by 1 to 30 days	1 194	(6)	1 188	(0.50)
Past due by 31 to 60 days	10	—	10	—
Past due by 61 to 90 days	—	—	—	—
Past due by more than 90 days	12	—	12	—
Other cellular networks				
Past due by 1 to 30 days	13 741	(2)	13 739	(0.01)
Past due by 31 to 60 days	512	(6)	506	(1.17)
Past due by 61 to 90 days	26	—	26	—
Past due by more than 90 days	159	—	159	—
Municipalities and private utilities				
Past due by 1 to 30 days	57 460	—	57 460	—
Past due by 31 to 60 days	37 036	—	37 036	—
Past due by 61 to 90 days	17 819	—	17 819	—
Past due by more than 90 days	75 550	(2 417)	73 133	(3.20)
Associates, joint ventures and related parties				
Past due by 1 to 30 days	620	—	620	—
Past due by 31 to 60 days	72	—	72	—
Past due by 61 to 90 days	—	—	—	—
Past due by more than 90 days	30 299	(3 030)	27 269	(10.00)
	3 908 808	(95 984)	3 812 824	(2.46)

Notes to the Group annual financial statements continued

For the year ended 31 May 2020

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

3.1 Credit risk continued

Expected credit losses continued

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.

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 perform 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 who are highly collateralised, with no external credit ratings. ECL range of 0% to 4.24% (2019: 0% to 0.75%);

Group 2: Fully performing counterparties with a credit rating equivalent to a Moody's rating of B1 or better. ECL range of 4.24% to 5.92% (2019: 0.75% to 3.3%);

Group 3: Fully performing counterparties with a credit rating equivalent to a Moody's rating of between B2 and Caa2. ECL range of 5.92% to 52.6% (2019: 3.3% to 15.49%); and

Group 4: Counterparties who are considered to be in default and have an equivalent Moody's rating of Ca or lower. ECL of 52.6% to 100% (2019: 15.49% to 100%).

The ECLs (probability of default and loss given default) applied to these groupings are obtained from Moody's Analytics for a reference entity with similar credit risk characteristics to the counterparties to which the Group is exposed. Furthermore, management has assumed that no entity to which this rating scale is applied carries a Moody's equivalent rating in excess of investment grade, and thus the maximum rating utilised is a B1 equivalent rating. The impact of COVID-19 on this rating scale has been integrated as noted above.

	Trade receivables		Other financial assets	
	2020 R'000	2019 R'000	**2020 R'000**	2019 R'000
Provision for impairment of receivables				
Balance at the beginning of the year	**95 984**	47 908	**277 954**	141 850
Amounts restated through opening retained earnings	**–**	32 876	**–**	48 404
Disposal of subsidiary	**(29 176)**	–	**(34)**	–
Allowances made during the year – continuing operations	**63 430**	33 215	**60 307**	163 645
Allowances made during the year – discontinued operations	**32 033**	8 818	**–**	88
Amounts utilised	**(31 042)**	(26 833)	**(369)**	(76 033)
At 31 May	**131 229**	95 984	**337 858**	277 954

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.

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 non-derivative 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
2020						
Interest-bearing borrowings	3.6.2	**5 005**	**2 320 703**	**2 778**	**—**	**—**
Non-interest-bearing borrowings	3.6.2	**—**	**13 952**	**—**	**—**	**—**
Trade and other payables	3.6.1	**2 598 265**	**1 955 394**	**—**	**—**	**—**
Lease liabilities	3.8	**2 999**	**66 909**	**41 513**	**48 834**	**—**
Derivative liability	3.7	**—**	**214 559**	**—**	**—**	**—**
Financial liability at fair value through profit or loss	3.7	**357 562**	**—**	**—**	**—**	**—**
Financial guarantee contracts	3.6.3	**87 603**	**113 871**	**—**	**—**	**—**
Bank overdraft	3.5.4	**192**	**—**	**—**	**—**	**—**
Total		**3 051 626**	**4 685 388**	**44 291**	**48 834**	**—**
2019						
Interest-bearing borrowings	3.6.2	18 553	1 706 571	1 722 693	2 877	—
Non-interest-bearing borrowings	3.6.2	—	21 924	13 952	—	—
Trade and other payables	3.6.1	3 354 792	1 860 145	—	17 304	—
Put option liability	3.7	—	158 638	—	—	—
Financial liability at fair value through profit or loss	3.7	—	301 716	—	—	—
Financial guarantee contracts	3.6.3	243 492	12 500 001	—	—	—
Contingent consideration	3.6.1	1 923	—	—	—	—
Bank overdraft	3.5.4	7 843	—	—	—	—
Total		3 626 603	5 298 994	1 736 645	20 181	—

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

Notes to the Group annual financial statements continued

For the year ended 31 May 2020

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

3.2 Liquidity risk continued

Liquidity support

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 2020, the Group has contributed USD24 million to SPV2. The remaining amount due of USD20 million is included in financial liabilities at fair value through profit or loss.

Group facilities

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

Facility	Borrower	Investec	Rand Merchant Bank	Value R'000	Interest rate	Interest period	Repayment date
Senior facility A	Comm Equipment Company Proprietary Limited	50%	50%	**266 677**	3-month JIBAR plus 3.85%	Quarterly	31 August 2020*
Senior facility B	Comm Equipment Company Proprietary Limited	50%	50%	**200 000**	Prime plus 0.35%	Monthly	31 August 2020*
Mezzanine facility	Comm Equipment Company Proprietary Limited	100%	–	**410 532**	Prime plus 1.5%	Monthly	31 August 2020*
Facility A	The Prepaid Company Proprietary Limited	100%	–	**1 500 000**	Prime	Monthly	31 March 2021**
Facility B	The Prepaid Company Proprietary Limited	100%	–	**307 000**	Prime	Monthly	31 August 2020
				2 684 209			

* Subsequent to year-end, the Group has renewed these facilities until 31 August 2021. Refer to note 9.2.

** Subsequent to year-end, the Group has renewed this facility until 30 September 2021. Refer to note 9.2.

- The working capital loan facilities available to The Prepaid Company at year-end amounted to R1.8 billion (2019: R2.050 billion), of which R1.586 billion (2019: R1.512 billion) had been utilised. Refer to note 3.6.2.
- 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;
  - 90% of the cash deposits are to be held with Investec (on average for the month);
  - debt to EBITDA ratio must be less than 2.5 times; 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 Rand Merchant Bank Limited and Investec Bank of R877.2 million (2019: R1.92 billion). This facility is restricted for use by CEC. The utilised portion of the facility at year-end amounted to R716.3 million (2019: R1.669 billion). Refer to note 3.6.2.
- The following debt covenants applied to the CEC facilities with Investec and Rand Merchant Bank:
  - EBITDA to total finance costs ratio must be greater than 2.5 times;
  - total of Cell C Group liabilities and subscriber receivables amount to debt ratio must be greater than 1.5; and
  - adjusted subscriber receivable to the difference between relevant debt and CEC treasury account balance ratio must be greater than 1.25.

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

- The Group has renewed senior facility A, senior facility B, the mezzanine facility and facility A.

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

3.2 Liquidity risk continued

Pledges, guarantees and sureties

- The shares in CEC have been pledged as security for the R877.2 million Rand Merchant Bank Limited and Investec Bank facilities. Blue Label Telecoms and The Prepaid Company have issued guarantees to the value of R150 million for this 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 unchanged from the prior year, comprised an overdraft facility of R19.85 million, credit card facility of R1.3 million and a debit order settlement facility of R13.5 million. At 31 May 2020, the overdraft facility was unutilised.
- Guarantees to the value of R1.6 billion (2019: R936.8 million) 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.

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	**2020** **R'000**	2019 R'000
An increase or decrease in the market interest rates of 1% (100 basis points) would increase/decrease profit before tax by	**27 473**	18 491

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.

(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.

In the current year, the Group incurred a foreign exchange gain of R40.7 million (2019: R37.1 million loss) mainly as a result of the Group's USD exposure.

Notes to the Group annual financial statements continued

For the year ended 31 May 2020

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

3.3 Market risk continued

(ii) Foreign currency 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 2020, 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.

			(Decrease)/increase in profit before tax	
Net exposure to foreign currencies Denominated:functional currency	**Net assets/ (liabilities) denominated in foreign currency R'000**	**Change in exchange rate %**	**Weakening in functional currency R'000**	**Strengthening in functional currency R'000**
2020				
USD:ZAR	**(333 183)**	**10**	**(33 318)**	**33 318**
NAD:ZAR	**(31)**	**10**	**(3)**	**3**
	(333 214)		**(33 321)**	**33 321**

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 not subject to externally imposed capital requirements.

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.

	2020 R'000	2019 R'000
Interest-free loans	**50 611**	94 929
Interest-bearing loans receivable	**40 461**	58 603
Less: Provision for impairment	**(18 952)**	(6 006)
	72 120	147 526
Less: Amounts included in current portion of loans receivable	**(35 604)**	(105 766)
	36 516	41 760

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

3.5 Financial assets continued

3.5.1 Loans receivable continued

All loans receivable are unsecured and repayable within five years. Interest-bearing loans bear interest at a range of between prime and 11.75%. 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.

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:

	2020 R'000	2019 R'000
Trade receivables arising on revenue from contracts with customers	**2 126 745**	2 182 409
Banks	**231 424**	83 480
Independent and informal retail customers	**1 010 711**	858 281
Formal market retail customers	**446 342**	535 871
Customers in the petroleum sector	**94 275**	67 730
Receivables for starter packs	**160 005**	212 967
Cell C	**13 297**	27 415
Other cellular networks	**48 006**	110 373
Municipalities and private utilities	**122 200**	252 561
Associates, joint ventures and related parties	**485**	33 731
Trade receivables arising on financing transactions	**1 269 019**	1 540 045
Cell C	**1 253 602**	1 325 303
Other	**15 417**	214 742
Less: Provision for impairment	**(131 229)**	(95 984)
Net trade receivables	**3 264 535**	3 626 470
Net sundry debtors	**210 806**	189 647
Prepayments	**412 308**	315 547
VAT	**42 094**	125 602
	3 929 743	4 257 266

Notes to the Group annual financial statements continued

For the year ended 31 May 2020

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

3.5 Financial assets continued

3.5.2 Trade and other receivables continued

Included in trade receivables are debtors of R150 million (2019: R208 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 has further insurance cover to the value of R10 million (2019: R10 million) over trade receivable balances with certain material customers. All insured values exclude VAT.

There is a cession of trade receivables (including inter-group balances) of R4.337 billion (2019: R3.563 billion) in favour of Investec Bank Limited as security for facilities referred to in note 3.2.

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.

	2020 **R'000**	2019 R'000
Advances to customers	**1 687 564**	1 619 965
Less: Provision for impairment	**(5 489)**	(2 868)
	1 682 075	1 617 097
Less: Amounts included in current portion of advances to customers	**(1 232 250)**	(1 032 657)
	449 825	584 440

Cell C guarantees bad debts and cancellations of these customers in terms of the "Amended and Restated Product Procurement and Financing Agreement". At 31 May 2020, bad debts and cancellations amounted to R214 million (2019: R210 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.

3.5.4 Cash and cash equivalents

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

	2020 **R'000**	2019 R'000
Cash at bank	**2 014 531**	1 385 334
Cash on hand	**386**	262
	2 014 917	1 385 596
Bank overdraft	**(192)**	(7 843)
	2 014 725	1 377 753

Included in this balance is restricted cash of R15.6 million (2019: R16.6 million), received on behalf of and immediately due to third parties, that may not be utilised in the Group's ordinary course of business.

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

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.

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

	2020 R'000	2019 R'000
Trade payables	**3 611 013**	3 719 714
Accruals	**206 771**	181 406
Employee benefits	**35 604**	79 594
Sundry creditors	**228 781**	148 945
Deferred revenue	**19 484**	8 003
Contingent consideration	**—**	1 923
VAT	**21 007**	10 864
Payables to related parties (refer to note 8)	**488 983**	1 220 937
	4 611 643	5 371 386

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.

	2020 R'000	2019 R'000
Interest-bearing borrowings	**2 305 209**	3 200 408
Non-interest-bearing borrowings	**13 952**	35 876
	2 319 161	3 236 284
Less: Amounts included in current portion of borrowings	**(2 316 383)**	(1 520 764)
	2 778	1 715 520

The table below details the facilities drawn upon at 31 May 2020. For terms of these facilities, refer to note 3.2.

			Facility utilised	
Facility	**Investec**	**Rand Merchant Bank**	**2020 R'000**	2019 R'000
Senior facility A	50%	50%	**266 677**	858 735
Senior facility B	50%	50%	**39 102**	400 196
Mezzanine facility	100%	—	**410 532**	410 532
Facility A	100%	—	**1 509 038**	1 512 428
Facility B	100%	—	**77 082**	—
			2 302 431	3 181 891

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

Notes to the Group annual financial statements continued

For the year ended 31 May 2020

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
Closing balance – 31 May 2018	1 456 968	1 514 140	2 971 108
Acquisition of subsidiaries net of balance due to BLT elimination on consolidation	104 529	—	104 529
Elimination of inter-group loan acquired	(98 846)	—	(98 846)
Non-interest-bearing borrowings raised	35 876	—	35 876
Non-interest-bearing borrowings repaid	(170)	—	(170)
Interest-bearing borrowings repaid	(769 652)	—	(769 652)
Interest-bearing borrowings raised	792 059	201 380	993 439
Closing balance – 31 May 2019	**1 520 764**	**1 715 520**	**3 236 284**
Disposal of subsidiaries	**(54 539)**	**—**	**(54 539)**
Transfer of inter-group loan to external borrowings as part of disposal group	**53 154**	**—**	**53 154**
Derecognition of loan claim	**—**	**(13 465)**	**(13 465)**
Non-interest-bearing borrowings raised	**170**	**—**	**170**
Non-interest-bearing borrowings repaid	**(22 094)**	**—**	**(22 094)**
Transfer from non-current to current interest-bearing borrowings	**1 669 464**	**(1 669 464)**	**—**
Interest-bearing borrowings repaid	**(881 931)**	**(29 905)**	**(911 836)**
Interest-bearing borrowings raised	**31 395**	**92**	**31 487**
Closing balance – 31 May 2020	**2 316 383**	**2 778**	**2 319 161**

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.

A portion of the financial guarantee contract obligation to RBL Bank was called upon in the current period.

	2020 R'000	2019 R'000
Opening balance	**243 492**	—
Adjustment on the initial application of IFRS 9	**—**	19 029
Foreign exchange movement	**10 166**	—
Additional liability raised during the year through profit or loss – continuing operations	**671**	62 132
Additional liability raised during the year through investment in joint venture – continuing operations	**—**	40 631
Acquisition of subsidiaries	**—**	125 000
Used during the year	**(44 190)**	—
Amounts released through profit or loss – continuing operations	**(8 500)**	(3 300)
Amounts released through profit or loss – discontinued operations	**(165)**	—
Closing carrying amount	**201 474**	243 492

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

3.6 Financial liabilities continued

3.6.3 Financial guarantee contracts continued

Included in the closing balance is a parent guarantee of USD5 million to the value of R87.6 million (2019: R73.4 million) which has been issued in favour of RBL Bank on behalf of Oxigen Services India Private Limited. Should this guarantee be called upon, the Group will be required to settle the amount within seven days.

During the financial year, a cash-backed guarantee of USD3 million to the value of R44.2 million was called upon by RBL Bank and settled. An amount of R48.2 million was provided for in respect of this guarantee in the prior year.

An amount of R113.2 million (2019: R121.7 million) is owed to Investec Limited by Glocell Proprietary Limited, and has been guaranteed by Glocell Distribution Proprietary Limited should the former not be able to meet its obligations.

The Group has not raised a liability for its guarantee to the consortium of financial institutions in respect of Cell C's funding of R959 million (2019: R1.25 billion) due to the fact that it holds sufficient collateral, which the Group expects to realise should the guarantee be called upon and the residual financial risk not be material. Refer to note 2.1.

3.7 Financial instruments at fair value through profit or loss

	Bond notes (SPV1) R'000	Liquidity support (SPV2) R'000	Loans receivable R'000	Put option liability R'000	Derivative liability R'000	Surety loan receivable R'000	Other R'000	Total R'000
Opening balance	–	(301 716)	202 267	(158 638)	–	85 003	2 472	(170 612)
Additions	–	–	–	(7 654)	(77 524)	–	34 500	(50 678)
Repayments	–	–	–	–	–	–	(18 877)	(18 877)
Derecognition of put option liability on disposal of VAS operations (refer to note 11)	–	–	–	214 559	–	–	–	214 559
Fair value (loss)/gain recognised in profit or loss	–	(48 694)	(66 371)	(48 267)	–	19 826	(7 142)	(150 648)
Other movements	–	–	(9 292)	–	–	–	–	(9 292)
Closing balance	–	(350 410)	126 604	–	(77 524)	104 829	10 953	(185 548)
Financial assets at fair value through profit or loss – included in current assets	–	–	126 604	–	–	–	18 105	144 709
Financial assets at fair value through profit or loss – included in non-current assets	–	–	–	–	–	104 829	–	104 829
Financial liabilities at fair value through profit or loss	–	(350 410)	–	–	(77 524)	–	(7 152)	(435 086)
Closing balance	–	(350 410)	126 604	–	(77 524)	104 829	10 953	(185 548)
Unrealised (losses)/gains		(48 694)	(66 371)	–	(77 524)	19 826	(7 142)	(179 905)

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 will be 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 will be provided over 24 months and will be 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 2020, the Group had contributed USD24 million to SPV2 towards the latter amount.

Notes to the Group annual financial statements continued

For the year ended 31 May 2020

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 the prior year, the valuation was performed using a Monte Carlo simulation taking into account the value of Cell C Limited. As no value was attributed to Cell C in the prior year, 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, remained payable as at 31 May 2019. This amount was included in financial liabilities at "fair value through profit or loss". As at 31 May 2020, a qualified independent third-party specialist once again attributed no value to Cell C Limited. As a result thereof, the value of SPV1 and SPV2 remains at zero and the liquidity support of USD20 million remains payable, with the fair value movement in SPV2 relating to the foreign exchange rate thereon.

Loans at fair value

The Prepaid Company (TPC) acquired a 48% share in Glocell Distribution Proprietary Limited (Glocell Distribution) on 30 June 2018.

In terms of an agreement entered into between TPC and Glocell Proprietary Limited (Glocell) during the year ended 31 May 2019, Glocell pledged its 40% shareholding in Glocell Distribution to TPC in the event of Glocell defaulting on amounts owing to TPC. The right to enforce this pledge is currently not exercisable. This right only becomes exercisable once Glocell has settled its outstanding debt of R113.2 million (2019: R121.7 million) to Investec Bank Limited.

Glocell's ability to repay TPC the amounts owing to it is dependent on the extent of dividends receivable from Glocell Distribution on a piecemeal basis. The contractual terms of the loan have no fixed repayment dates, and in the event that Glocell defaults on the loan, the only recourse the Group has is to the shares of Glocell Distribution held by Glocell. As such, the financial instrument has been classified and measured at fair value through profit or loss.

A fair value downward adjustment of R75.7 million (2019: R141 million) of the R202 million (2019: R343 million) owing to TPC was required due to unfavourable trading conditions, with specific reference to starter packs, exacerbated by the impact of COVID-19 on Glocell Distribution's financial performance. The prior year downward adjustment was required due to unfavourable wholesale trading conditions.

Fair value estimate

A discounted cash flow valuation of Glocell Distribution has been used to determine the value of Glocell's 40% shareholding in Glocell Distribution. This is used to determine the fair value of the loan. This valuation has been performed by the finance department of the Group using cash flow projections based on forecasts for up to five years, which are based on assumptions of the business, industry and economic growth.

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

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

3.7 Financial instruments at fair value through profit or loss continued

Fair value estimate continued

Key assumption applied to value-in-use calculation	2020 %	2019 %
Discount rate (pre-tax)	21.0	20.7
Terminal growth rate	4.5	4.2

		2020 R'000	2019 R'000
Effect on fair value due to change in key assumption	**%**	**(Decrease) / increase in loan at fair value**	
Change in discount rate	1	**(12 147)**	(12 122)
	(1)	**14 414**	13 679
Change in terminal growth rate	2	**21 048**	17 386
	(2)	**(14 994)**	(13 627)

Put option liability

Put option liabilities represent contracts that impose an obligation on the Group to purchase the shares of a subsidiary for cash or another financial asset. Put option liabilities, where the risks and rewards reside with the non-controlling interest, are initially raised from the transaction with non-controlling interest reserve in equity at the present value of the expected redemption amount payable. Subsequent revisions to the expected redemption amount payable as well as the unwinding of the discount related to the measurement of the present value of the put option liability, are recognised in the income statement. Where a put option liability expires unexercised or is cancelled, the carrying value of the financial liability is released to equity. The Group recognises the non-controlling interest over which a put option exists at acquisition date. Where a put option liability is substantially modified it is accounted for as an extinguishment of the original financial liability under IFRS 9 and, to the extent applicable, a new financial liability is recognised. The difference arising between the carrying amount of original financial liability and the fair value of the new financial instrument is recognised in profit or loss.

Critical accounting judgements and assumptions

Management assessed on initial recognition of the put option liability that the risks and rewards of ownership remained with the non-controlling interest and therefore no adjustment was required to the non-controlling interest.

Derivative liability

The derivative liability relates to the put option liability for Airvantage. For further information, refer to note 11.

Surety loans receivable

Surety loans relate to the personal sureties that B Levy and M Levy signed for the 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) and as such is a level 3 instrument in the fair value hierarchy. In the current year payment terms for the surety loans were renegotiated, with the payments being agreed as instalments payable annually commencing on 30 September 2021 and ending on 30 September 2030. Based on the payment terms, the entire surety loan receivable is recognised as non-current. In the prior year the loan owing to Gold Label Investments Proprietary Limited was impaired due to a decrease in the fair value of Oxigen Services and Oxigen Online resulting in the Group recognising a receivable on the surety claim.

Notes to the Group annual financial statements continued

For the year ended 31 May 2020

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

3.8 Leases

The Group has adopted IFRS 16 – *Leases* from 1 June 2019. Refer to note 10.5 for a description of the nature and effect of the change in accounting policy.

	Retail space R'000	Office space R'000	Warehouse space R'000	**Total R'000**
Lease liabilities				
Opening balance	—	—	—	**—**
Adoption of IFRS 16	21 163	132 628	568	**154 359**
Increase in liabilities	7 454	22 806	3 077	**33 337**
Interest expense – continuing operations	—	11 498	188	**11 686**
Interest expense – discontinued operations	2 157	523	—	**2 680**
Repayments	(15 726)	(36 341)	(1 142)	**(53 209)**
Lease modifications	13 575	(5 196)	—	**8 379**
Disposal of subsidiaries	—	(15 366)	—	**(15 366)**
Termination of leases	—	—	(743)	**(743)**
Closing balance	28 623	110 552	1 948	**141 123**
Included in current liabilities	(28 623)	(30 318)	(1 261)	**(60 202)**
	—	80 234	687	**80 921**
Lease assets				
Opening balance	—	—	—	**—**
Adoption of IFRS 16	21 163	127 834	568	**149 565**
Additions	7 454	21 430	3 077	**31 961**
Depreciation – continuing operations	—	(31 135)	(1 106)	**(32 241)**
Depreciation – discontinued operations	(10 514)	(1 078)	—	**(11 592)**
Impairments – continuing operations	—	—	—	**—**
Impairments – discontinued operations	(18 103)	(12 609)	—	**(30 712)**
Lease modifications	—	(4 743)	—	**(4 743)**
Disposal of subsidiaries	—	(13 694)	—	**(13 694)**
Termination of leases	—	—	(692)	**(692)**
Closing balance	—	86 005	1 847	**87 852**

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

3.8 Leases continued

The Group leases various offices, warehouses and retail stores. Rental contracts are typically made for fixed periods of one to four 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:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment 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 lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

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.

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 2020

4. NON-FINANCIAL INSTRUMENTS

Non-financial instruments comprise:

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

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. Intangible assets that have an indefinite useful life are not subject to amortisation. 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 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.

	2020 R'000	2019 R'000
Year ended 31 May		
Opening carrying amount	**1 234 995**	1 036 243
Acquisition of subsidiary	**643**	313 664
Disposal of subsidiaries	**(295 225)**	—
Impairment of goodwill	**(259 170)**	(124 400)
Foreign Currency Translation Reserve on goodwill	**—**	9 488
Closing carrying amount	**681 243**	1 234 995
At 31 May		
Cost	**1 076 941**	1 371 523
Accumulated impairments	**(395 698)**	(136 528)
Carrying amount	**681 243**	1 234 995

The carrying amount of goodwill and intangible assets was reduced to their recoverable amounts through recognition of an impairment loss of R259.2 million (2019: R124.4 million).

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

	2020 R'000	2019 R'000
3G Mobile Proprietary Limited	**—**	47 212
Airvantage Proprietary Limited	**—**	52 707
AV Technology Limited	**—**	55 053
Blue Label Connect Proprietary Limited	**—**	156 501
Blue Label Distribution Proprietary Limited	**36 364**	36 364
CEC Proprietary Limited	**335 468**	335 468
Cellfind Proprietary Limited	**—**	21 406
Datacel Group	**79 854**	79 854
Glocell Distribution Proprietary Limited	**161 697**	218 779
Panacea Mobile Proprietary Limited	**—**	6 883
The Prepaid Company Proprietary Limited	**62 113**	62 113
TicketPros Proprietary Limited	**5 104**	5 104
Viamedia Proprietary Limited	**—**	111 964
Visual Revenue Management Proprietary Limited	**643**	—
WiConnect Proprietary Limited	**—**	45 587
	681 243	1 234 995

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 2020

4. NON-FINANCIAL INSTRUMENTS continued

4.1 Goodwill continued

Critical accounting estimates and assumptions continued

Assessment of goodwill for impairment continued

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

	2020			2019		
	Average EBITDA margin %	**Terminal growth rate %**	**Pre-tax discount rate %**	Average EBITDA margin %	Terminal growth rate %	Pre-tax discount rate %
3G Mobile Proprietary Limited	**–**	**–**	**–**	4.1	5.5	19.5
Airvantage Proprietary Limited	**–**	**–**	**–**	68.5	4.0	35.9
AV Technology Limited	**–**	**–**	**–**	77.0	2.5	17.9
Blue Label Connect Proprietary Limited	**11.5**	**4.5**	**21.9**	16.2	4.2	22.7
Blue Label Distribution Proprietary Limited	**2.8**	**4.5**	**19.9**	3.4	4.2	19.7
CEC Proprietary Limited	**14.2**[1]	*****	**28.4**	2.5	5.5	21.8
Cellfind Proprietary Limited	**–**	**–**	**–**	34.3	4.2	23.3
Datacel Group	**13.8**	**4.5**	**21.5**	19.9	2.5	27.2
Glocell Distribution Proprietary Limited	**8.4**	**4.5**	**21.0**	3.4	4.2	20.7
Panacea Mobile Proprietary Limited	**–**	**–**	**–**	23.9	4.2	22.9
The Prepaid Company Proprietary Limited	**3.6**	**4.5**	**16.3**	2.4	4.2	15.8
TicketPros Proprietary Limited	**24.5**	**4.5**	**25.0**	19.4	4.2	19.8
Viamedia Proprietary Limited	**–**	**–**	**–**	28.5	4.2	29.0
WiConnect Proprietary Limited	**–**	**–**	**–**	11.0	4.2	33.4

[1] The 11.7% increase in average EBITDA margin is directly aligned to the 9 year contract entered into by CEC in the current financial year.

* The value-in-use calculation performed on CEC covers a fixed term of 9 years based on the time frame of the underlying contract, hence no terminal growth rate is applied.

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.

4. NON-FINANCIAL INSTRUMENTS continued

4.1 Goodwill continued

Critical accounting estimates and assumptions continued

Assessment of goodwill for impairment continued

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 monthly increase in subscription base Units	Excess over carrying value R'000
CEC Proprietary Limited	1.0	(1 477)	92 396

The following goodwill impairments would be required should these assumptions be adjusted in the value-in-use calculation of Glocell Distribution:

	1% increase in discount rate R'000	2% decrease in terminal growth rate R'000	5% decrease in annual EBITDA R'000
Glocell Distribution Proprietary Limited	(14 577)	(17 992)	(9 371)

Goodwill impairments recognised in the 2020 financial year are as follows:

Blue Label Connect Proprietary Limited

Blue Label Connect is engaged in the supply of post-paid mobile communications products, with focused marketing to end consumers. The company's performance has been negatively impacted as a result of challenging economic conditions due in part to COVID-19. Furthermore, margin compression resulting from reduced incentives from the networks as well as an increase in product costs, has resulted in the decision to impair their goodwill of R156.5 million in full (2019: R49.2 million). The recoverable amount of Blue Label Connect is calculated to be R291 million.

Glocell Distribution Proprietary Limited

GloCell Distribution's core strategy is the distribution of starter packs for the various mobile network operators through its established channels. In the current year, the company experienced unfavourable trading conditions, with specific reference to starter packs, exacerbated by the impact of COVID-19, which resulted in a goodwill impairment of R57 million. The recoverable amount of Glocell Distribution attributable to The Prepaid Company's 48% shareholding is calculated to be R152 million.

WiConnect Proprietary Limited

WiConnect provided customers with the full suite of cellular and Blu Approved products through its retail stores. Despite the implementation of a turnaround strategy, the severe impact of COVID-19 on WiConnect's performance resulted in the decision to cease operations in their entirety. As such, the recoverable amount of WiConnect equates to its net asset value of Rnil and the goodwill of R45.6 million attributable to the entity was impaired in full. Refer to note 11.

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 (three 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).

Notes to the Group annual financial statements continued

For the year ended 31 May 2020

4. NON-FINANCIAL INSTRUMENTS continued

4.2 Intangible assets continued

(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. 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

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. Amortisation is calculated using the straight-line method over their estimated useful lives (10 years).

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

Critical accounting estimates and assumptions

Purchased starter pack bases and postpaid starter pack bases

The relative size of the Group's purchased starter pack bases and postpaid starter pack bases makes the judgements surrounding the 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. The current useful life of these bases is estimated to be 10 years, based on management's estimates and taking into account historical experience as well as future events which may impact the useful lives.

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	Total R'000
Year ended 31 May 2020						
Opening carrying amount	**622 085**	**211 919**	**67 198**	**55 630**	**126 496**	**1 083 328**
Additions	**—**	**—**	**17 572**	**9 767**	**—**	**27 339**
Reclassification between categories	**—**	**(22 873)**	**—**	**—**	**22 873**	**—**
Acquisition of subsidiaries	**—**	**—**	**—**	**—**	**—**	**—**
Disposals	**—**	**(13 515)**	**(228)**	**(110)**	**(7 926)**	**(21 779)**
Amortisation charge – continuing operations	**(48 967)**	**(6 410)**	**(24 434)**	**(14 633)**	**(32 920)***	**(127 364)**
Amortisation charge – discontinued operations	**(9 830)**	**(9 161)**	**(3 007)**	**(2 319)**	**—**	**(24 317)**
Disposal of subsidiaries	**(213 394)**	**(149 255)**	**(24 611)**	**(18 882)**	**—**	**(406 142)**
Translation difference	**—**	**3 350**	**(339)**	**(223)**	**—**	**2 788**
Closing carrying amount	**349 894**	**14 055**	**32 151**	**29 230**	**108 523**	**533 853**
At 31 May 2020						
Cost	**569 337**	**124 347**	**153 738**	**102 586**	**543 534**	**1 493 542**
Accumulated amortisation	**(219 443)**	**(110 292)**	**(121 587)**	**(73 356)**	**(435 011)**	**(959 689)**
Accumulated impairments	**—**	**—**	**—**	**—**	**—**	**—**
Carrying amount	**349 894**	**14 055**	**32 151**	**29 230**	**108 523**	**533 853**
Year ended 31 May 2019						
Opening carrying amount	702 603	93 035	74 376	52 134	154 721	1 076 869
Additions	—	17 773	27 706	28 075	2 377	75 931
Acquisition of subsidiaries	—	128 107	2 316	—	—	130 423
Disposals	—	—	109	—	(110)	(1)
Amortisation charge – continuing operations	(51 027)	(11 417)	(30 030)	(14 549)	(30 492)*	(137 515)
Amortisation charge – discontinued operations	(29 491)	(24 176)	(7 329)	(4 919)	—	(65 915)
Impairments – continuing operations**	—	—	—	(5 111)	—	(5 111)
Translation difference	—	8 597	50	—	—	8 647
Closing carrying amount	622 085	211 919	67 198	55 630	126 496	1 083 328
At 31 May 2019						
Cost	858 698	421 012	180 648	125 398	581 831	2 167 587
Accumulated amortisation	(234 735)	(208 478)	(112 753)	(55 179)	(455 335)	(1 066 480)
Accumulated impairments	(1 878)	(615)	(697)	(14 589)	—	(17 779)
Carrying amount	622 085	211 919	67 198	55 630	126 496	1 083 328

* Included in the amortisation charge is an amount of R32.9 million (2019: R30.5 million) in respect of the purchased starter pack bases and postpaid bases, which is charged to the changes in inventories of finished goods line in the income statement.

** Included in depreciation and amortisation on the Group income statement.

Notes to the Group annual financial statements continued

For the year ended 31 May 2020

4. NON-FINANCIAL INSTRUMENTS continued

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.

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 their respective lease periods and estimated useful lives.

4. NON-FINANCIAL INSTRUMENTS continued

4.3 Property, plant and equipment continued

		Furniture,			Terminals		
		fittings		Leasehold	and		
	Computer	and office	Motor	improve-	vending		
	equipment	equipment	vehicles	ments	machines	Buildings	Total
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Year ended 31 May 2020							
Opening carrying amount	**58 329**	**28 405**	**22 608**	**32 854**	**91 362**	**4 099**	**237 657**
Additions	**64 964**	**10 506**	**6 968**	**37 196**	**18 988**	**–**	**138 622**
Acquisition of subsidiaries	**35**	**–**	**–**	**–**	**–**	**–**	**35**
Disposals	**(3 650)**	**(563)**	**(3 050)**	**(687)**	**(4 474)**	**–**	**(12 424)**
Depreciation charge – continuing operations	**(21 315)**	**(3 527)**	**(6 324)**	**(2 950)**	**(22 197)**	**–**	**(56 313)**
Depreciation charge – discontinued operations	**(4 600)**	**(10 126)**	**(419)**	**(7 466)**	**–**	**–**	**(22 611)**
Impairments – continuing operations*	**–**	**–**	**–**	**–**	**(7 303)**	**–**	**(7 303)**
Impairments – discontinued operations**	**(8 565)**	**(12 005)**	**–**	**(37 828)**	**–**	**–**	**(58 398)**
Disposal of subsidiaries	**(7 264)**	**(2 706)**	**(2 250)**	**(8 531)**	**–**	**–**	**(20 751)**
Translation difference	**134**	**(21)**	**(28)**	**89**	**–**	**–**	**174**
Closing carrying amount	**78 068**	**9 963**	**17 505**	**12 677**	**76 376**	**4 099**	**198 688**
At 31 May 2020							
Cost	**167 186**	**51 809**	**30 317**	**103 390**	**195 475**	**4 099**	**552 276**
Accumulated depreciation	**(80 553)**	**(29 841)**	**(12 812)**	**(52 885)**	**(110 502)**	**–**	**(286 593)**
Accumulated impairments	**(8 565)**	**(12 005)**	**–**	**(37 828)**	**(8 597)**	**–**	**(66 995)**
Carrying amount	**78 068**	**9 963**	**17 505**	**12 677**	**76 376**	**4 099**	**198 688**
Year ended 31 May 2019							
Opening carrying amount	40 286	10 908	21 599	5 200	55 028	4 099	137 120
Additions	32 449	10 099	10 063	17 841	63 576	–	134 028
Acquisition of subsidiaries	7 443	18 433	455	14 164	4 488	–	44 983
Disposals	(547)	(7)	(2 842)	(199)	(874)	–	(4 469)
Depreciation charge – continuing operations	(16 290)	(3 180)	(6 237)	(1 808)	(28 804)	–	(56 319)
Depreciation charge – discontinued operations	(5 012)	(7 863)	(517)	(3 203)	(50)	–	(16 645)
Impairments – continuing operations*	–	–	–	–	(2 002)	–	(2 002)
Translation difference	–	15	87	859	–	–	961
Closing carrying amount	58 329	28 405	22 608	32 854	91 362	4 099	237 657
At 31 May 2019							
Cost	140 964	50 113	33 740	84 994	206 517	4 099	520 427
Accumulated depreciation	(82 465)	(20 584)	(11 132)	(51 702)	(111 897)	–	(277 780)
Accumulated impairments	(170)	(1 124)	–	(438)	(3 258)	–	(4 990)
Carrying amount	58 329	28 405	22 608	32 854	91 362	4 099	237 657

* Included in depreciation and amortisation on the Group income statement.

** These impairments arose as a consequence of the closure of WiConnect which has been accounted for as a discontinued operation. Refer to note 11.

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 2020

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.

	2020 **R'000**	2019 R'000
Finished goods		
Prepaid airtime	**510 238**	1 069 511
Handsets	**39 535**	394 795
Other*	**27 177**	50 343
	576 950	1 514 649

* Other inventory mainly consists of starter packs and consumables.

Inventories with a cost of R18.8 billion (2019: R21.2 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 unsalable inventory and for latent damage to the value of R20.8 million (2019: R17.5 million).

A general notarial bond is held by Investec Bank Limited over airtime up to R1.5 billion (2019: 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.

4. NON-FINANCIAL INSTRUMENTS continued

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.

	Provision relating to the closure of WiConnect R'000	Other provisions R'000	Total R'000
Opening balance	—	24 947	24 947
Additions	28 291	—	28 291
Used during the year	—	—	—
Reversed	—	(200)	(200)
Reclassified to discontinued operations	—	(4 737)	(4 737)
Reclassified to trade and other payables	—	(18 767)	(18 767)
Closing carrying amount	28 291	1 243	29 534

Provision relating to the closure of WiConnect

The restructuring provision is as a result of the ceasing of operations in WiConnect. The provision mainly comprises retrenchment costs, onerous contracts and other sundry costs resulting from closure. Refer to note 11 for further information.

The Group is not involved in any significant litigation at year-end.

Notes to the Group annual financial statements continued

For the year ended 31 May 2020

5. EMPLOYEES

5.1 Equity compensation benefit

During the year, 17 636 695 (2019: 5 947 453) 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 on 26 September 2019. (No dividend was declared on 21 August 2018.)

The performance condition of Executive Directors/senior managers respectively for the ninth award which vested on 18 November 2019 were 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% 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 33.33%/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 33.33%/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 33.33%/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.

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 condition for Executive Directors/senior managers respectively for the 10th and 11th award grant vesting on 31 August 2020 and 31 August 2021 respectively 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 33.33%/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 33.33%/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 33.33%/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 12th award grant vesting on 31 August 2022 are as follows:

		Group long-term incentive (LTI) financial metrics*		
		Threshold	Target	Stretch
Core HEPS (30%) (compounded cumulatively over three years)	Group	CPI + 5%	CPI + 10%	CPI + 15%
	Payout %	1/3 of 30%	3/3 of 30%	38% of max
Total shareholder return (30%)	Group	Greater than or equal to JSE Capped All Share Index	JSE Capped All Share Index Return + CPI + 5% (average not compounded over three years)	JSE Capped All Share Index Return + CPI + 15% (average not compounded over three years)
	Payout %	1/3 of 30%	3/3 of 30%	38% of max
Return on capital employed (ROCE)** (20%)	Group	ROCE greater than or equal to WACC compounded over three years	ROCE greater than or equal to WACC + 2.5% compounded over three years	ROCE greater than or equal to WACC + 5% compounded over three years
	Payout %	1/3 of 20%	3/3 of 20%	24% of max
Environmental, social and governance (ESG)*** (20%)	Group	Succession plans for key roles	B-BBEE performance + succession plans for key roles	N/A
	Payout %	1/3 of 20%	3/3 of 20%	N/A

* The Remuneration Committee may review targets post-FY20. 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)/(total equity + net debt). Net debt = total liabilities minus cash.

*** ESG targets may be replaced for Executive Directors with personal strategic objectives.

Notes to the Group annual financial statements continued

For the year ended 31 May 2020

5. EMPLOYEES continued

5.1 Equity compensation benefit continued

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.

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 2018			5 262 079	81 342
8th award			2 245 446	22 836
9th award			1 206 922	25 044
10th award			1 809 711	33 462
Granted during the year			5 947 453	42 584
11th award	1 September 2018	31 August 2021	5 947 453	42 584
Shares forfeited during the year			(473 121)	(7 080)
8th award			(224 545)	(2 284)
9th award			(88 243)	(1 831)
10th award			(160 333)	(2 965)
Shares vested during the year			(2 020 901)	(20 552)
8th award		31 August 2018	(2 020 901)	(20 552)
At 31 May 2019			**8 715 510**	**96 294**
9th award			**1 118 679**	**23 213**
10th award			**1 649 378**	**30 497**
11th award			**5 947 453**	**42 584**
Granted during the year			**17 636 695**	**44 974**
12th award	**18 November 2019**	**31 August 2022**	**17 636 695**	**44 974**
Shares forfeited during the year			**(1 227 578)**	**(18 435)**
9th award			**(628 029)**	**(13 032)**
10th award			**(98 004)**	**(1 812)**
11th award			**(501 545)**	**(3 591)**
Shares vested during the year			**(490 650)**	**(10 181)**
9th award		**18 November 2019**	**(490 650)**	**(10 181)**
Shares vested during the year – discontinued operations			**(1 263 224)**	**(10 741)**
10th award		**30 April 2020**	**(149 719)**	**(2 768)**
11th award		**14 February 2020**	**(455 409)**	**(3 261)**
11th award		**30 April 2020**	**(658 096)**	**(4 712)**
At 31 May 2020			**23 370 753**	**101 911**
10th award			**1 401 655**	**25 917**
11th award			**4 332 403**	**31 020**
12th award			**17 636 695**	**44 974**

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 4 827 626 (2019: 1 135 411).

The share-based payment expense in relation to these Executive Directors is -R0.5 million (2019: -R0.9 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.

	2020 **R'000**	2019 R'000
Salaries and wages	**479 430**	432 204
Bonuses	**23 143**	44 266
Equity compensation benefit	**9 593**	5 237
Other	**481**	512
	512 647	482 219

Average number of employees for the year is 1 074 (2019: 1 014).

Notes to the Group annual financial statements continued

For the year ended 31 May 2020

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
For the year ended 31 May 2020			
Executive Directors			
BM Levy	**–**	**–**	**–**
MS Levy	**–**	**–**	**–**
DA Suntup	**–**	**–**	**–**
	–	**–**	**–**
Non-Executive Directors			
LM Nestadt	**2 067**	**–**	**2 067**
K Ellerine	**640**	**–**	**640**
G Harlow	**1 191**	**250**	**1 441**
J Mthimunye	**1 073**	**250**	**1 323**
JS Vilakazi	**792**	**–**	**792**
	5 763	**500**	**6 263**
	5 763	**500**	**6 263**
For the year ended 31 May 2019			
Executive Directors			
BM Levy	–	–	–
MS Levy	–	–	–
DA Suntup	–	–	–
	–	–	–
Non-Executive Directors			
LM Nestadt	1 950	–	1 950
K Ellerine	604	–	604
G Harlow	1 124	–	1 124
J Mthimunye	1 012	–	1 012
JS Vilakazi	747	–	747
P Mahanyele**	374	–	374
	5 811	–	5 811
	5 811	–	5 811

** P Mahanyele resigned with effect from 23 November 2018.

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.

Services as Directors of subsidiaries of Blue Label Telecoms Limited R'000	Salary and allowances from subsidiaries 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
—	9 522	3 338	211	13 071	6 379
—	9 538	3 338	195	13 071	6 379
—	4 948	—	207	5 155	3 378
—	24 008	6 676	613	31 297	16 136
—	—	—	—	2 067	—
—	—	—	—	640	—
520	—	—	—	1 961	—
65	—	—	—	1 388	—
—	—	—	—	792	—
585	—	—	—	6 848	—
585	24 008	6 676	613	38 145	16 136
—	8 991	3 338	191	12 520	2 835
—	9 005	3 338	177	12 520	2 835
—	4 686	—	177	4 863	1 502
—	22 682	6 676	545	29 903	7 172
—	—	—	—	1 950	—
—	—	—	—	604	—
514	—	—	—	1 638	—
53	—	—	—	1 065	—
—	—	—	—	747	—
—	—	—	—	374	—
567	—	—	—	6 378	—
567	22 682	6 676	545	36 281	7 172

Notes to the Group annual financial statements continued

For the year ended 31 May 2020

5. EMPLOYEES continued

5.3 Directors' emoluments

	Issue date	Issue price R	Vesting date
Forfeitable share scheme per Director			
For the year ended 31 May 2020			
BM Levy	**18 October 2016**	**20.75**	**18 November 2019**
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**
MS Levy	**18 October 2016**	**20.75**	**18 November 2019**
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**
DA Suntup	**18 October 2016**	**20.75**	**18 November 2019**
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**
Forfeitable share scheme per Director			
For the year ended 31 May 2019			
BM Levy	1 September 2015	10.17	31 August 2018
BM Levy	18 October 2016	20.75	31 August 2019
BM Levy	1 September 2017	18.49	31 August 2020
BM Levy	1 September 2018	7.16	31 August 2021
MS Levy	1 September 2015	10.17	31 August 2018
MS Levy	18 October 2016	20.75	31 August 2019
MS Levy	1 September 2017	18.49	31 August 2020
MS Levy	1 September 2018	7.16	31 August 2021
DA Suntup	1 September 2015	10.17	31 August 2018
DA Suntup	18 October 2016	20.75	31 August 2019
DA Suntup	1 September 2017	18.49	31 August 2020
DA Suntup	1 September 2018	7.16	31 August 2021

Awards outstanding as at the beginning of the year	Number of shares awarded	Awards forfeited during the year	Awards vested during the year	Balance as at the end of the year
137 194	**—**	**(91 467)**	**(45 727)**	**—**
163 970	**—**	**—**	**—**	**163 970**
448 843	**—**	**—**	**—**	**448 843**
—	**1 908 425**	**—**	**—**	**1 908 425**
750 007	**1 908 425**	**(91 467)**	**(45 727)**	**2 521 238**
137 194	**—**	**(91 467)**	**(45 727)**	**—**
163 970	**—**	**—**	**—**	**163 970**
448 843	**—**	**—**	**—**	**448 843**
—	**1 908 425**	**—**	**—**	**1 908 425**
750 007	**1 908 425**	**(91 467)**	**(45 727)**	**2 521 238**
72 663	**—**	**(48 444)**	**(24 219)**	**—**
86 845	**—**	**—**	**—**	**86 845**
237 725	**—**	**—**	**—**	**237 725**
—	**1 010 776**	**—**	**—**	**1 010 776**
397 233	**1 010 776**	**(48 444)**	**(24 219)**	**1 335 346**
262 834	—	(26 283)	(236 551)	—
137 194	—	—	—	137 194
163 970	—	—	—	163 970
—	448 843	—	—	448 843
563 998	448 843	(26 283)	(236 551)	750 007
262 834	—	(26 283)	(236 551)	—
137 194	—	—	—	137 194
163 970	—	—	—	163 970
—	448 843	—	—	448 843
563 998	448 843	(26 283)	(236 551)	750 007
139 207	—	(13 921)	(125 286)	—
72 663	—	—	—	72 663
86 845	—	—	—	86 845
—	237 725	—	—	237 725
298 715	237 725	(13 921)	(125 286)	397 233

Notes to the Group annual financial statements continued

For the year ended 31 May 2020

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.

	2020 Number of shares	2019 Number of shares	**2020 R'000**	2019 R'000
Authorised				
Total authorised share capital of ordinary shares (par value of R0.000001 each)	**2 000 000 000**	2 000 000 000	**2**	2
Issued				
Balance at the beginning of the year	**904 201 466**	940 885 750	**1**	1
Shares acquired during the year	**(15 953 437)**	(5 852 017)	*****	*
Share buy-back	**—**	(32 853 168)	**—**	*
Shares vested during the year	**490 650**	2 020 901	*****	*
Balance at the end of the year	**888 738 679**	904 201 466	**1**	1

* Less than R1 000.

All issued shares are fully paid up.

The total number of shares in issue including shares held as treasury shares as at 31 May 2020 is 913 655 874 (2019: 913 655 874).

The Company acquired 15 953 437 (2019: 5 852 017) shares at an average price of R2.89 (2019: R7.24) on the JSE in order to grant forfeitable shares to employees and Directors as part of the Group's forfeitable share plan.

The amount paid to acquire these shares was R46 351 534 (2019: R42 378 078) and has been deducted from shareholders' equity. These shares are held as treasury shares, and netted off of share premium.

Refer to note 5.1 for details on the forfeitable shares.

6. EQUITY continued

6.2 Other reserves

	2020 R'000	2019 R'000
Balance at the beginning of the year	**(2 824 740)**	(2 814 202)
Exchange differences on translation of foreign operations	**(11 450)**	63 905
Transactions with non-controlling interests*	**138 645**	(61 677)
Equity compensation benefit scheme shares vested	**(20 582)**	(19 915)
Equity compensation benefit movement	**16 332**	7 149
Blue Label Mobile restructure	**13 235**	—
Reserve relating to B-BBEE transaction recycled to retained earnings	**(1 400)**	—
Balance at the end of the year	**(2 689 960)**	(2 824 740)
Consisting of:		
Restructuring reserve	**(1 843 912)**	(1 843 912)
Foreign currency translation reserve	**94 073**	105 520
Non-distributable reserve	**7 821**	7 821
Transactions with non-controlling interest reserve	**(979 066)**	(1 130 945)
Share-based payment reserve	**—**	1 400
Equity compensation benefit reserve	**31 124**	35 376
	(2 689 960)	(2 824 740)

* The majority of the current year amount relates to the derecognition of the transaction with non-controlling interest reserve on the effective date of the VAS operations disposal. Refer to note 11. The prior year amount relates to a put option that the Group has on the remaining 40% shareholding in Airvantage Proprietary Limited. Refer to note 11.

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 share-based payment reserve relates to a B-BBEE transaction concluded by Panacea Mobile Proprietary Limited and Simigenix Proprietary Limited (the companies), subsidiaries of Blue Label Telecoms. In October 2017, the companies declared dividends to the full value of the companies to Blue Label Telecoms. Such dividends were immediately converted to preference shares. Subsequent to this, the companies issued shares to Bitsana Investments Proprietary Limited for nominal value. The Group has not recognised this dilution and accounts for the companies as wholly owned subsidiaries until the preference shares have been settled in full. The preference shares will be settled through the declaration of dividends by the companies. There are no specified dates for this. In the current year, both companies were disposed of thereby reducing this reserve to nil.

Notes to the Group annual financial statements continued

For the year ended 31 May 2020

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.

	2020 R'000	2019 R'000
Current tax	**313 000**	339 670
Current year	**312 991**	339 894
Adjustment in respect of prior years	**9**	(224)
Deferred tax	**(8 146)**	(24 548)
Current year	**(8 914)**	(31 542)
Adjustment in respect of prior years	**768**	6 994
Withholding tax	**(5 612)**	—
Income tax expense	**299 242**	315 122
Total taxation is attributable to:		
Profit from continuing operations	**219 752**	278 449
Profit from discontinued operations	**79 490**	36 673
	299 242	315 122

7. TAXATION continued

7.1 Income tax expense continued

	2020		2019	
	R'000	%	R'000	%
Profit/(loss) from continuing operations before tax	500 835		(6 384 164)	
Profit from discontinued operations before tax	17 514		77 090	
Profit/(loss) before tax	518 349		(6 307 074)	
Tax at 28%	145 138	28.0	(1 765 981)	28.0
Loss on liquidity support not deductible	13 634	2.6	41 728	(0.7)
Expenditure of a capital nature	5 935	1.1	5 025	(0.1)
Financial guarantee contracts	–	–	27 850	(0.4)
Recycling of foreign currency translation reserve on sale of subsidiary (refer to note 11)	(14 990)	(2.9)	–	–
Impairment of goodwill	59 804	11.6	34 832	(0.6)
Impairment of loan to joint venture (refer to note 2.1)	–	–	45 233	(0.7)
Impairment of investment in associate and joint venture (refer to note 2.1)	–	–	714 186	(11.3)
Loan written off	49 791	9.6	–	–
Derecognition of put option liability on disposal of VAS operations (refer to note 11)	(60 077)	(11.6)	–	–
Recognition of derivative liability	21 707	4.2	–	–
Fair value adjustments to loans receivable	21 186	4.1	–	–
Fair value adjustments to discontinued operations	27 669	5.4	–	–
Surety loan fair value adjustment	(5 551)	(1.1)	(8 399)	0.1
Other income not subject to tax	(25 895)	(5.0)	(27 845)	0.4
Other expenses not deductible for tax purposes	61 417	11.9	73 674	(1.2)
Capital gains tax	8 291	1.6	16 896	(0.3)
Tax effect of assessed losses not recognised	2 627	0.5	122 919	(1.9)
Utilisation of previously unrecognised assessed losses	(1 955)	(0.4)	(460)	0.0
Share of losses/(profits) from associates and joint ventures (refer to note 2.1)	(3 819)	(0.7)	1 036 395	(16.4)
Adjustment in respect of prior years	777	0.1	6 770	(0.1)
Effect of different tax dispensations	(835)	(0.2)	(8 813)	0.1
Withholding tax	(5 612)	(1.1)	1 112	(0.0)
Tax charge	299 242	57.7	315 122	(5.0)
Effective tax rate (%)	58%		(5%)	

Notes to the Group annual financial statements continued

For the year ended 31 May 2020

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	Purchase price allocations and fair value gains	Provisions	Tax losses	Prepay-ments	Unrealised foreign exchange differences	Other	Total
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
At 31 May 2018	10 442	208 183	(31 989)	(24 009)	5 288	15 051	911	183 877
Adjustment on the initial application of IFRS 9	–	–	(10 067)	(378)	–	–	(276)	(10 721)
Adjustment on the initial application of IFRS 15	–	–	–	–	–	–	(11 816)	(11 816)
Charged/(credited) to the income statement	3 622	(28 506)	(6 188)	(8 146)	1 145	6 181	7 344	(24 548)
Acquisition of subsidiaries	(82)	39 302	–	(18 067)	–	–	–	21 153
Foreign currency translation reserve	–	2 407	–	–	–	–	–	2 407
At 31 May 2019	**13 982**	**221 386**	**(48 244)**	**(50 600)**	**6 433**	**21 232**	**(3 837)**	**160 352**
Charged/(credited) to the income statement	**(1 243)**	**(17 491)**	**1 179**	**17 576**	**(58)**	**3 707**	**(9 117)**	**(5 447)**
Acquisition of subsidiaries	**(101)**	**–**	**–**	**(1 778)**	**–**	**–**	**271**	**(1 608)**
Foreign currency translation reserve	**–**	**4 534**	**–**	**–**	**–**	**–**	**–**	**4 534**
Disposal of subsidiaries	**(12 300)**	**(98 867)**	**11 151**	**1 755**	**(619)**	**(1 190)**	**(130)**	**(100 200)**
At 31 May 2020	**338**	**109 562**	**(35 914)**	**(33 047)**	**5 756**	**23 749**	**(12 813)**	**57 631**

7. TAXATION continued

7.2 Deferred taxation continued

	2020 **R'000**	2019 R'000
Deferred tax asset comprises:		
Capital allowances	**(327)**	—
Provisions	**(35 914)**	(48 244)
Tax losses	**(33 047)**	(50 600)
Other	**(20 600)**	(8 760)
Total deferred tax asset	**(89 888)**	(107 604)
Deferred tax liability comprises:		
Capital allowances	**665**	13 982
Purchase price allocations and fair value gains	**109 562**	221 386
Prepayments	**5 756**	6 433
Unrealised foreign exchange differences	**23 749**	21 232
Other	**7 787**	4 923
Total deferred tax liability	**147 519**	267 956
Net deferred tax	**57 631**	160 352
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	**(10 398)**	(3 532)
Deferred tax assets to be recovered within 12 months	**(56 961)**	(72 516)
Net deferred tax asset	**(67 359)**	(76 048)
Deferred tax liabilities		
Deferred tax liabilities to be recovered after more than 12 months	**44 455**	197 710
Deferred tax liabilities to be recovered within 12 months	**80 535**	38 690
Net deferred tax liability	**124 990**	236 400
Net deferred tax	**57 631**	160 352

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 R140.7 million (2019: R139.2 million) in respect of losses amounting to R562.9 million (2019: R557.5 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 2020

8. RELATED PARTIES

Transactions and balances with related parties:

	Sales to related parties		Purchases from related parties	
	2020 R'000	2019 R'000	**2020 R'000**	2019 R'000
3G Mobile (Botswana) Proprietary Limited[2]	**–**	9 931	**–**	352
Black Ginger 59 Proprietary Limited	**–**	–	**64**	11 917
Blue Label Mexico S.A. de C.V.*	**5 935**	6 120	**–**	1 773
Cell C Limited*	**1 395 521**	2 030 623	**3 305 045**	6 203 272
i-Crypto Incorporated*	**138**	–	**213**	–
JRL Autotraders Proprietary Limited	**–**	–	**–**	4 506
Melrose Motor Investments Proprietary Limited	**–**	–	**11**	3 033
Prepaid24 Proprietary Limited*	**12 292**	9 136	**–**	–
SSG Security Solutions Proprietary Limited	**–**	–	**–**	700
T3 Telecoms SA Proprietary Limited*	**43 923**	38	**26 492**	31 312
The Grill House Close Corporation	**–**	–	**140**	153
Unihold Group Proprietary Limited	**24**	346	**–**	53
United Call Centre Solutions Proprietary Limited*	**13 938**	13 854	**17 303**	25 647
Uvongo Falls No 26 Proprietary Limited	**–**	–	**1 365**	1 680
	1 471 771	2 070 048	**3 350 633**	6 284 398

	Other income received from related parties		Other expenses paid to related parties	
Other income received from related parties				
United Call Centre Solutions Proprietary Limited*	**82**	–	**–**	–
Dividends received from related parties				
Utilities World Proprietary Limited*	**–**	1 992	**–**	–
United Call Centre Solutions Proprietary Limited*	**5 000**	16 000	**–**	–
Interest received from related parties				
2DFine Holdings Mauritius*	**–**	3 776	**–**	–
SupaPesa South Africa Proprietary Limited*[1]	**556**	662	**–**	–
T3 Telecoms SA Proprietary Limited*	**666**	32	**–**	–
United Call Centre Solutions Proprietary Limited*	**931**	1 961	**–**	–
Finance revenue from related parties				
Cell C Limited*	**108 084**	141 841	**–**	–
Management fees received from related parties				
Datacision Proprietary Limited*	**–**	270	**–**	–
T3 Telecoms SA Proprietary Limited*	**286**	100	**–**	–
United Call Centre Solutions Proprietary Limited*	**515**	600	**–**	–
Interest paid to related parties				
United Call Centre Solutions Proprietary Limited*	**–**	–	**6**	149
Management fees paid to related parties				
Unihold Group Proprietary Limited	**–**	–	**56**	–
T3 Telecoms SA Proprietary Limited*	**–**	–	**203**	–
Rent paid to related parties[4]				
Ellerine Bros. Proprietary Limited	**–**	–	**8 424**	7 800
Moneyline 311 Proprietary Limited	**–**	–	**8 424**	7 800
Unihold Group Proprietary Limited	**–**	–	**–**	1 780
Uvongo Falls No 26 Proprietary Limited	**–**	–	**8 715**	7 277
Purchases of property, plant and equipment from related parties				
Bluchip Retail Solutions Proprietary Limited	**–**	–	**–**	3 156
Melrose Motor Investments Proprietary Limited	**–**	–	**–**	160
	116 120	167 234	**25 828**	28 122

8. RELATED PARTIES continued

Transactions and balances with related parties:

	Loans to related parties		Loans from related parties	
	2020 R'000	2019 R'000	**2020 R'000**	2019 R'000
2DFine Holdings Mauritius*#	**249 513**	205 240	**—**	—
2DFine Investments Mauritius*#	**4 082**	2 786	**—**	—
Oxigen Services India Private Limited*#	**57 248**	47 216	**—**	—
Brett Levy (refer to note 3.5.1)	**52 415**	42 502	**—**	—
Mark Levy (refer to note 3.5.1)	**52 415**	42 502	**—**	—
Prepaid24 Proprietary Limited*	**3 578**	13 650	**—**	—
SupaPesa South Africa Proprietary Limited*[1]	**—**	5 765	**—**	—
T3 Telecoms SA Proprietary Limited*	**9 053**	3 685	**—**	—
United Call Centre Solutions Proprietary Limited*	**2 000**	17 000	**—**	—
Total loss allowance on loans to related parties (refer to note 3.5.1)	**(315 985)**	(269 168)	**—**	—
	114 319	111 178	**—**	—
	Guarantees given to related parties		**Guarantees received from related parties**	
Oxigen Services India Private Limited*	**87 603**	73 450	**—**	—
	87 603	73 450	**—**	—
	Lease asset due from related parties		**Lease liability due to related parties[3]**	
Ellerine Bros. Proprietary Limited	**—**	—	**25 297**	—
Moneyline 311 Proprietary Limited	**—**	—	**25 297**	—
Uvongo Falls No 26 Proprietary Limited	**—**	—	**27 168**	—
	—	—	**77 762**	—
	Amounts due from related parties included in trade receivables		**Amounts due to related parties included in trade payables**	
3G Mobile (Botswana) Proprietary Limited[2]	**—**	22 802	**—**	136
Black Ginger 59 Proprietary Limited	**—**	101	**—**	—
Bluchip Retail Solutions Proprietary Limited	**—**	259	**—**	—
Blue Label Mexico S.A. de C.V.*	**426**	2 206	**—**	—
Cell C Limited*	**1 266 899**	1 352 718	**488 917**	1 212 392
Datacision Proprietary Limited*	**—**	35	**—**	—
i-Crypto Incorporated*	**—**	70	**—**	—
Oxigen Services India Private Limited*	**5 876**	5 876	**—**	—
Prepaid24 Proprietary Limited*	**11**	70	**—**	—
SupaPesa South Africa Proprietary Limited*[1]	**—**	1 106	**—**	—
T3 Telecoms SA Proprietary Limited*	**3 200**	254	**—**	5 118
Unihold Group Proprietary Limited	**492**	464	**66**	2
United Call Centre Solutions Proprietary Limited*	**119**	1 730	**—**	3 154
Uvongo Falls No 26 Proprietary Limited	**1 436**	—	**—**	135
Total loss allowance on trade receivables to related parties (refer to note 3.5.2)	**(10 995)**	(8 521)	**—**	—
	1 267 464	1 379 170	**488 983**	1 220 937

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

# These loans and receivables have been fully provided for both in the current and prior year and are included as part of the total loss allowance.

[1] SupaPesa South Africa Proprietary Limited was disposed of as part of the VAS operations sale transaction. Refer to note 11.

[2] 3G Botswana was equity accounted in the prior year.

[3] In terms of IFRS 16, this lease liability is required to be disclosed.

[4] Included in the rental payments is the unwinding of the lease liability.

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.

Notes to the Group annual financial statements continued

For the year ended 31 May 2020

9. UNRECOGNISED ITEMS

9.1 Subsequent events

Blue Label Mexico

Blue Label Telecoms is currently in the process of concluding the disposal of its 47.56% interest in Blue Label Mexico, the structure of which is yet to be finalised. Once completed, shareholders will be notified accordingly.

Banking facilities

On 29 November 2019, The Prepaid Company's Investec banking facilities totalling R2.176 billion were successfully renewed, of which R1.5 billion was extended for a period of 12 months to 31 March 2021 and R676 million for nine months to 31 August 2020. Of the latter amount, R542 million has been paid to date.

As at the date of publication of the 31 May 2020 financial statements, the Prepaid Company renegotiated a further extension of the R1.5 billion facility from 31 March 2021 to 30 September 2021, demonstrating Investec's confidence in Blue Label. The exposure to Investec is required to be no more than R1 billion as at 31 March 2021.

As at 31 May 2020, The Prepaid Company's Investec facilities were disclosed as current borrowings, as the extension to 30 September 2021 was only granted in August 2020.

On 9 September 2016, Comm Equipment Company (CEC) entered into a debt funding agreement with Investec and Rand Merchant Bank. This debt funding was divided into three separate facilities, namely senior facility A of R858 million, senior facility B of R650 million and mezzanine facility of R410 million. In February 2020, the proceeds of R604 million from the sale of the 3G Mobile Handset division were applied against the senior A facility. All three facilities were due to expire on 31 August 2020.

CEC's facilities have been renegotiated to 31 August 2021 comprising R267 million for senior facility A, R200 million for senior facility B and R411 million for the mezzanine facility.

As at 31 May 2020, CEC's debt facilities were disclosed as current borrowings, as the extension to 31 August 2021 was only granted in August 2020.

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. Refer to note 10.5.

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

In spite of certain restrictions caused by the COVID-19 pandemic, Blue Label has continued to deliver essential services, including electricity, airtime, data and other digital services, as well as providing financial transactional services. The lockdown regulations and the downturn in economic activity have not impacted negatively on airtime, data and electricity sales volumes. The Group's digital expertise has enabled uninterrupted access of all its products and services through banks, formal retailers, independent retailers, petroleum forecourts and spaza shops across South Africa. Cash flow generated by the core businesses within the Group has consequently not been negatively impacted.

The products and services that Blue Label provides fulfil essential needs of the consumer, even more so during the lockdown period due to home confinement. In essence, such demand would only decline if consumer cash resources dwindle as a result of a decline in their income. In a situation of this nature, Blue Label's products and services would remain a priority in consumer spend and retain a level of resilience in comparison to other consumer goods and services.

The Group's retail business, starter pack distribution, gaming vouchers and ticketing were negatively impacted during the initial lockdown period. Starter pack distribution and gaming voucher trading volumes are now back to pre-COVID-19 levels.

The lockdown, however, had a significant negative impact on the retail operations of WiConnect and given the uncertainty of the duration of the pandemic and the resultant losses attributable thereto impacting on its financial feasibility, a decision was made prior to year-end to cease the operations of the WiConnect retail stores. This resulted in a negative impact of R318 million on the Group's basic earnings for the year ended 31 May 2020. The actual cash outflow required for the closure of the stores, which is included in the R318 million expense, will however be confined to approximately R30 million, in that the balance of such negative earnings represents all trading losses which have been expended, impairments to property plant and equipment and goodwill.

Challenging economic conditions, an unfavourable trading environment, margin compression as a result of reduced incentives from the mobile networks and an increase in product costs, exacerbated by COVID-19, necessitated an impairment of goodwill in Blue Label Connect of R157 million, a partial goodwill impairment in Glocell Distribution of R57 million and a fair value downward adjustment of the Glocell loan, net of taxation, of R47 million.

In considering credit risk, management included considerations related to COVID-19 when calculating ECLs. The considerations resulted in increased probability of default percentages in the current year when compared to the prior year and ultimately in an increase of the average ECL/impairment ratio on total trade receivables from 2.46% in the prior year to 3.68% in the current year. The Group did not experience any significant defaults or requests from material clients for easing of payment terms or payment holidays.

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group has sufficient liquidity to meets its obligations and will be able to operate within its current funding levels without breaching any of its current covenants into the foreseeable future.

The Directors are of the opinion that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing the financial statements.

Notes to the Group annual financial statements continued

For the year ended 31 May 2020

10. ACCOUNTING FRAMEWORK continued

10.3 Standards, amendments and interpretations not yet effective

At the date of authorisation of these annual financial statements, the following relevant standards, amendments and interpretations to existing standards were in issue but not yet effective. These will apply to the Group's accounting periods beginning on 1 June 2020 or later periods and have not been elected to be early adopted by the Group.

The following standards/amendments/interpretations are not anticipated to have a material impact on the Group, and are effective for annual periods beginning on 1 June 2020:

Standard(s)/ amendment(s)/ interpretation(s)/	Description of change	Effective date
Amendment to IAS 1 – *Presentation of Financial Statements* and IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors* on the definition of material	These amendments to IAS 1 and IAS 8 and consequential amendments to other IFRS: • use a consistent definition of materiality through IFRS and the Conceptual Framework for Financial Reporting; • clarify the explanation of the definition of material; and • incorporate some of the guidance in IAS 1 about immaterial information. The amendments will not have a material impact on the Group.	Accounting period beginning on 1 June 2020
Amendment to IFRS 3 – *Business Combinations* **Definition of a business**	This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations. More acquisitions are likely to be accounted for as asset acquisitions. The amendment will not have a material impact on the Group.	Accounting period beginning on 1 June 2020
IFRS 17 – *Insurance Contracts*	The IASB issued IFRS 17 – *Insurance Contracts*, and thereby started a new epoch of accounting for insurers. Whereas the current standard, IFRS 4, allows insurers to use their local GAAP, IFRS 17 defines clear and consistent rules that will significantly increase the comparability of financial statements. For insurers, the transition to IFRS 17 will have an impact on financial statements and on key performance indicators. The standard will not have a material impact on the Group.	Accounting period beginning on 1 June 2023
Amendments to IFRS 9 – *Financial Instruments*, IAS 39 – *Financial Instruments: Recognition and Measurement* and IFRS 7 – *Financial Instruments: Disclosure* – Interest rate benchmark reform	These amendments provide certain reliefs in connection with interest rate benchmark reform (IBOR). The reliefs relate to hedge accounting and have the effect that IBOR should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement. The amendments will not have a material impact on the Group.	Accounting period beginning on 1 June 2020

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.

10.5 Change in accounting policy

IFRS 16

The Group has adopted IFRS 16 – *Leases* from 1 June 2019 under the modified retrospective approach, and has therefore not restated comparatives for the previous reporting period, as permitted under this specific transitional provision in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 June 2019.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17 – *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 June 2019. Lease payments escalate at fixed rates. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 June 2019 was 10.44%.

Notes to the Group annual financial statements continued

For the year ended 31 May 2020

10. ACCOUNTING FRAMEWORK continued

10.5 Change in accounting policy continued

IFRS 16 continued

	R'000
Operating lease commitments disclosed as at 31 May 2019	**182 938**
Lease commitments discounted using the lessee's incremental borrowing rate at 1 June 2019	155 429
Less short-term leases recognised on a straight-line basis as expense	(5 799)
Less adjustments as a result of a different treatment of extension and termination options	4 729
Lease liability recognised as at 1 June 2019	**154 359**

The associated right-of-use assets are measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 May 2019.

Operating profit increased by R7.2 million and earnings per share decreased by 0.5 cents for the year ended 31 May 2020 as a result of the adoption of IFRS 16. On the Group statement of financial position, a right-of-use asset of R150 million and a lease liability of R154 million was recognised at 1 June 2019 as a result of the adoption of IFRS 16. There was no effect on opening retained earnings.

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous of which the Group had none;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 June 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group relied on its assessment made applying IAS 17 and IFRIC 4 – *Determining whether an Arrangement contains a Lease.*

Until 31 May 2019, leases of property, plant and equipment were classified as operating leases. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 June 2019, 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.

11. DISCONTINUED OPERATIONS

Accounting policy

Non-current assets (or disposal groups) are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held-for-sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held-for-sale continue to be recognised.

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

3G Mobile and VAS operations disposals

On 3 June 2019, BLT restructured its holdings in Cellfind Proprietary Limited (Cellfind), Viamedia Proprietary Limited (Viamedia), Airvantage Proprietary Limited (Airvantage) and AV Technology Limited (AV Technology). Prior to the restructure, BLT owned 100% of Cellfind, 60% of Airvantage SA, 60% of AV Technology and 75% of Viamedia. Malik Investments Holdings Proprietary Limited (Malik), a non-Group company, owned 25% of Viamedia. In terms of the restructure, BLT exchanged its shares in Cellfind, Viamedia, Airvantage and AV Technology for 89.51% of the shares in a new entity called Blue Label Mobile Group Proprietary Limited (BLM). Malik thereafter exchanged its 25% shareholding in Viamedia for 10.49% in BLM. Following this, Malik subscribed for a further 4.51% in BLM for R34 million, increasing its shareholding in BLM to 15% with BLT owning the remaining 85%.

On 25 September 2019, the Group announced it had entered into an agreement to dispose of its 85% shareholding in BLM as well as its 51% shareholdings in Simigenix Proprietary Limited and Panacea Proprietary Limited (together the VAS operations), to DNI 4PL Contracts Proprietary Limited (DNI), for a purchase consideration of R450 million, inclusive of loan claims, plus the amounts which BLM has disbursed towards the acquisition of 50% of Hyve as at the transaction closing date. Of the purchase consideration of R450 million, R100 million (bearing interest at prime overdraft rates plus 2% per annum compounded on a monthly basis), is contingent upon the solvency and liquidity status of Cell C being proven. There is no set date by which this needs to be proven and the consideration would only have to be proven once. Should the solvency and liquidity never be successfully proven, then the R100 million contingent purchase price and the interest accrued thereon will be forfeited by BLT, but in lieu thereof, BLM will transfer 24% of the issued share capital of Airvantage and AV Technology to BLT. Prior to the effective date of the disposal of the VAS operations, Simigenix and Panacea were sold on loan account to BLM. Furthermore, the Group announced that it would dispose of 100% of the shares in 3G Mobile to DNI for a purchase consideration of R544 million (this disposal group will be referred to as 3G Mobile) and would distribute its shares in Comm Equipment Company (CEC) and 3G Mobile's loan account claim against CEC to its shareholder, TPC prior to the effective date of the disposal. The associated assets and liabilities of the VAS operations and 3G Mobile disposal groups were consequently presented as held-for-sale in the reviewed results for the half-year ended 30 November 2019.

The 3G Mobile and VAS operations were sold with effect from 14 February 2020 and 30 April 2020 respectively and are reported in the current period as discontinued operations.

Notes to the Group annual financial statements continued

For the year ended 31 May 2020

11. DISCONTINUED OPERATIONS continued

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.

Significant management judgement was applied in determining whether WiConnect is a discontinued operation by assessing whether it has effectively been ceased to be used or abandoned by year-end and also whether it represents a separate major line of business or geographical area of operations or is 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 is a discontinued operation please refer to the information under "Critical accounting judgements and assumptions".

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

Financial performance of discontinued operations

		3G Mobile		
	VAS operations	1 June 2019 –	WiConnect	
	1 June 2019 –	14 February	1 June 2019 –	Total
	30 April 2020	2020	31 May 2020	2020
	R'000	R'000	R'000	R'000
Revenue and other income	413 421	1 553 611	287 298	2 254 330
Expenses	(257 594)	(1 477 988)	(539 978)	(2 275 560)
Other gains/(losses)*	110 149	(26 346)	(45 587)	38 216
Profit/(loss) before taxation	265 976	49 277	(298 267)	16 986
Taxation	(40 114)	(19 174)	(20 202)	(79 490)
Profit/(loss) after taxation of discontinued operations	225 862	30 103	(318 469)	(62 504)
(Loss)/gain on sale of the subsidiary after income tax (see below)	(43 022)	43 550	–	528
Profit/(loss) from discontinued operation	182 840	73 653	(318 469)	(61 976)
Exchange differences on translation of discontinued operations	34 558	–	–	34 558
Reclassification of foreign currency translation reserve	(48 508)	(5 027)	–	(53 535)
Other comprehensive income from discontinued operations	(13 950)	(5 027)	–	(18 977)
Total comprehensive income/(loss) from discontinued operations	168 890	68 626	(318 469)	(80 953)
Profit/(loss) for the period attributable to:	182 840	73 653	(318 469)	(61 976)
Equity holders of the parent	142 511	73 653	(318 469)	(102 305)
Non-controlling interest	40 329	–	–	40 329
Total comprehensive income/(loss) for the period attributable to:	168 890	68 626	(318 469)	(80 953)
Equity holders of the parent	115 468	68 626	(318 469)	(134 375)
Non-controlling interest	53 422	–	–	53 422

* Reconciliation of other losses is shown on the next page.

11. DISCONTINUED OPERATIONS continued

Financial performance of discontinued operations continued

	VAS operations 1 June 2019 – 30 April 2020 R'000	3G Mobile 1 June 2019 – 14 February 2020 R'000	WiConnect 1 June 2019 – 31 May 2020 R'000	Total 2020 R'000
Goodwill impairments of disposal groups and discontinued operation recognised[1]	(26 886)	(26 346)	(45 587)	(98 819)
Derecognition of put option liability on the effective date of VAS operations disposal[2]	214 559	–	–	214 559
Recognition of derivative liability to the extent that the exercise price does not represent the fair value of the underlying shares[2]	(77 524)	–	–	(77 524)
Other gains/(losses)	110 149	(26 346)	(45 587)	38 216

[1] In line with the requirements of IFRS 5, management performed an assessment to measure the disposal groups classified as held-for-sale at the lower of their carrying amount and fair value less cost to sell with the following conclusions being reached:

- VAS operations: Fair value less cost to sell was determined based on the selling price as per the VAS operations sales agreement. The determination of the fair value of the contingent consideration included in the selling price involved significant management judgement. For further information in this regard, refer to the information under "Critical accounting judgements and assumptions". The impairment losses of R26.9 million arising from measuring the VAS operations at the lower of its carrying value and fair value less costs to sell after taking into account loan claims to which the proceeds would first be applied to have been recorded in the "Profit from discontinued operation" line item within the Group statement of comprehensive income.
- 3G Mobile: Fair value less cost to sell was determined based on the selling price of R544 million as per the 3G Mobile sales agreement. The impairment losses of R26.3 million arising from measuring 3G Mobile at the lower of its carrying value and fair value less costs to sell have been recorded in the "Profit from discontinued operation" line item within the Group statement of comprehensive income.
- WiConnect: As the operations have ceased in their entirety, all of the goodwill attributable to the entity was impaired with the impairment losses recorded in the "Profit from discontinued operation" line item within the Group statement of comprehensive income.

[2] This relates to the put options for the acquisition of the remaining 40% minority interest in Airvantage and AV Technology. Prior to entering into the VAS operations disposal transaction, Blue Label accounted for the put options held by both the non-controlling shareholders in Airvantage and AV Technology. This was in line with IAS 32 paragraph 23 that requires an entity with an obligation to purchase its own equity instruments (i.e. Airvantage and AV Technology were consolidated by Blue Label, as their shares were Blue Label's own equity instruments from a consolidated Blue Label perspective) for cash or another financial asset, to recognise such obligation as a financial liability.

Notes to the Group annual financial statements continued

For the year ended 31 May 2020

11. DISCONTINUED OPERATIONS continued

Financial performance of discontinued operations continued

Following Blue Label's disposal of the VAS operations, the terms of the put option over the equity instruments in Airvantage and AV Technology have been substantially modified. In accordance with IFRS 9 this is accounted for as an extinguishment of the original put option liability and a new financial liability is recognised (derivative instrument). The resultant movement in profit or loss in included within the "Profit from discontinued operations" line item within the Group statement of comprehensive income.

Blue Label still has an obligation to acquire the shares should the non-controlling shareholders put the shares to it. As a result thereof, Blue Label recognised a derivative instrument, taking the following into consideration:

- the value of the instrument fluctuates in response to a change in the fair value of Airvantage and AV Technology;
- no initial net investment was required; and
- the put option may be exercised by the 40% minority shareholders during the 90-day period following signature of the 31 May 2020 audited results. The call option may be exercised by Blue Label for a period of 90 days after the put option expires.

The derivative financial instrument is measured at fair value through profit or loss. The amount at which the put and call options may be exercised is contractually determined based on the 31 May 2020 audited results at a six times net profit after tax multiple. Should the exercise price not represent the fair value of the underlying shares, an element of the derivative instrument would have value and as such would be recognised in Blue Label's financial statements. The determination of the extent to which the exercise price does not represent the fair value of the underlying shares involved significant management judgement. For further information in this regard, refer to "Critical accounting judgements and assumptions".

	VAS operations 2019 R'000	3G Mobile 2019 R'000	WiConnect 2019 R'000	Total 2019 R'000
Revenue and other incomes	364 223	1 713 637	235 940	2 313 800
Expenses	(349 174)	(1 653 151)	(234 385)	(2 236 710)
Profit before taxation	15 049	60 486	1 555	77 090
Taxation	(27 483)	(22 329)	13 139	(36 673)
(Loss)/profit after taxation of discontinued operations	(12 434)	38 157	14 694	40 417
Exchange differences on translation of discontinued operations	17 350	10 794	—	28 144
Other comprehensive income from discontinued operations	17 350	10 794	—	28 144
Total comprehensive income from discontinued operations	4 916	48 951	14 694	68 561
(Loss)/profit for the period attributable to:	(12 434)	38 157	14 694	40 417
Equity holders of the parent	(26 311)	38 157	14 694	26 540
Non-controlling interest	13 877	—	—	13 877
Total comprehensive income for the period attributable to:	4 916	48 951	14 694	68 561
Equity holders of the parent	(12 027)	48 951	14 694	51 618
Non-controlling interest	16 943	—	—	16 943

11. DISCONTINUED OPERATIONS continued

Cash flow information of discontinued operations

	VAS operations 1 June 2019 – 30 April 2020 R'000	3G Mobile 1 June 2019 – 14 February 2020 R'000	WiConnect 1 June 2019 – 31 May 2020 R'000	Total 2020 R'000
Net cash inflow from ordinary activities	**172 623**	**194 913**	**166 365**	**533 901**
Net cash inflow/(outflow) from investing activities	**183 152**	**(129 525)**	**(61 519)**	**(7 892)**
Net cash (outflow)/inflow from financing activities	**(279 568)**	**2 336**	**(105 230)**	**(382 462)**
Net increase in cash generated/(utilised) by the discontinued operations	**76 207**	**67 724**	**(384)**	**143 547**

	VAS operations 2019 R'000	3G Mobile 2019 R'000	WiConnect 2019 R'000	Total 2019 R'000
Net cash inflow/(outflow) from ordinary activities	56 211	(15 270)	21 149	62 090
Net cash inflow/(outflow) from investing activities	28 138	351	(17 260)	11 229
Net cash (outflow)/inflow from financing activities	(53 289)	2 572	(38 245)	(88 962)
Net increase in cash generated/(utilised) by the discontinued operations	31 060	(12 347)	(34 356)	(15 643)

Details of the sale of subsidiaries

	VAS operations 2020 R'000	3G Mobile 2020 R'000	Total 2020 R'000
Consideration received or receivable:			
Cash	**350 000**	**544 000**	**894 000**
Loan claims settled from cash	**(44 626)**	**–**	**(44 626)**
Fair value of contingent consideration*	**71 967**	**–**	**71 967**
Total disposal consideration	**377 341**	**544 000**	**921 341**
Carrying amount of net assets attributable to equity holders of the parent sold	**468 871**	**505 477**	**974 348**
(Loss)/gain on sale before income tax and reclassification of foreign currency translation reserve	**(91 530)**	**38 523**	**(53 007)**
Income tax expense on (loss)/gain	**–**	**–**	**–**
Reclassification of foreign currency translation reserve	**48 508**	**5 027**	**53 535**
(Loss)/gain on sale after income tax	**(43 022)**	**43 550**	**528**

* The determination of the fair value of the contingent consideration of R72 million involved significant management judgement. For further information in this regard refer to the information under "Critical accounting judgements and assumptions".

Notes to the Group annual financial statements continued

For the year ended 31 May 2020

11. DISCONTINUED OPERATIONS continued

Details of the sale of subsidiaries continued

The carrying amounts of assets and liabilities as at the date of sale (30 April 2020 for VAS operations and 14 February 2020 for 3G Mobile) were:

	VAS operations R'000	3G Mobile R'000	Total R'000
Property, plant and equipment	11 076	7 655	18 731
Right-of-use assets	11 892	1 802	13 694
Intangible assets	346 373	80 852	427 225
Goodwill	234 560	25 731	260 291
Investments in and loans to associates and joint ventures	26 101	—	26 101
Loans receivable	15 844	172 494	188 338
Trade and other receivables	207 498	289 390	496 888
Deferred taxation assets	1 342	9 771	11 113
Inventories	78	110 507	110 585
Financial asset at fair value through profit or loss	112	390	502
Current tax assets	694	622	1 316
Cash and cash equivalents	110 361	85 304	195 665
Total assets	965 931	784 518	1 750 449
Deferred taxation liabilities	86 394	22 092	108 486
Lease liabilities	13 602	1 764	15 366
Borrowings	53 815	724	54 539
Trade and other payables	157 030	241 143	398 173
Provisions	—	5 430	5 430
Current tax liabilities	29 565	7 888	37 453
Total liabilities	340 406	279 041	619 447
Net assets attributable to:	625 525	505 477	1 131 002
Equity holders of the parent	468 871	505 477	974 348
Non-controlling interest	156 654	—	156 654

Critical accounting judgements and assumptions

Fair value of the contingent consideration receivable

As explained under "Financial performance and cash flow information", management performed an exercise in terms of IFRS 5 under which the fair value less cost to sell was estimated for the VAS operations. The fair value of the VAS operations was determined using the fair value of the selling price. Since the ultimate consideration realised for the VAS operations will depend partly on whether Cell C's solvency and liquidity is proven, and if not, it will depend partly on the value of 24% of the shares in Airvantage and AV Technology, the determination of the fair value of the contingent consideration included in the selling price involved significant management judgement and, accordingly, is a level 3 input per the fair value hierarchy.

11. DISCONTINUED OPERATIONS continued

Critical accounting judgements and assumptions continued

Fair value of the contingent consideration receivable continued

The fair value was determined using a probability weighted basis which reflects the extent to which management believes that Cell C's solvency and liquidity will be proven, as well as management's estimate of the fair value of 24% of Airvantage and AV Technology:

	Solvency and liquidity of Cell C is proven	**Solvency and liquidity of Cell C remains unproven**
Cash consideration	R450 million	R350 million
Fair value of 24% of the issued share capital of Airvantage and AV Technologies	R0*	R43 million
Total fair value	R450 million	R393 million
Attributed probability percentage	51%**	49%
Weighted average fair value of total consideration receivable	R422 million	
Fair value of the contingent consideration receivable	R72 million	

* Not applicable as the R100 million contingent purchase consideration will be received should the solvency and liquidity of Cell C be proven.

** Refer to note 2 "Critical accounting judgement and assumptions" section (g) "Going concern of Cell C" for the factors that management considered in determining the 51% probability.

The contingent consideration of the sales price is based on the fair value of the 24% of Airvantage and AV Technology. The fair value of 24% of Airvantage and AV Technology was determined taking 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. It has been assumed that Airvantage would not continue to trade and hence no value has been attributed to its 24% share capital. The fair value of 24% of AV Technologies' share capital is estimated to be R43 million which was determined with reference to its contribution to the total profit of the VAS Operations applied to the total selling price as per the VAS Operations sales agreement, i.e. should the purchase price have been split between the relevant entities 24% of AV Technologies' share capital would have been attributed R43 million. This remained constant from initial recognition to subsequent measurement at year-end as the purchase consideration has remained unchanged and the operations and results of the underlying entities upon which the valuation is based have remained largely unchanged.

Should management have attributed a 100% probability to the solvency and liquidity of Cell C being proven, the contingent consideration's fair value would be R100 million. Conversely, should management have attributed a 0% probability to the solvency and liquidity of Cell C being proven, the contingent consideration's fair value would be R43 million.

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 are still run-off costs to be incurred (which have been provided for in terms of restructuring provisions, refer to note 4.5 for further detail) and assets to be sold and scrapped, these are elements of the closing down of the WiConnect operations. Based on this, together with the fact that inventory has been written down to its net realisable value and sold to one buyer, it is management's contention that the operations are not ongoing and that the inflows and outflows which are still to occur do not comprise an activity. Based on these facts and circumstances, management applied its judgement and has concluded that the operations of WiConnect have "ceased to be used".

Notes to the Group annual financial statements continued

For the year ended 31 May 2020

11. DISCONTINUED OPERATIONS continued

Critical accounting judgements and assumptions continued

WiConnect discontinued operation considerations continued

Management applied further significant judgement in determining whether the operations of WiConnect met the discontinued operations criteria as at year-end. More specifically, management needed to consider whether WiConnect may be 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) does not preclude it from being considered a major line of business. Executive management and chief operating decision-makers consider 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 is 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 is a separate major line of business and consequently meets the definition of a discontinued operation.

Derivative liability fair value

As explained under "Financial performance and cash flow information", significant management judgement was applied in determining the extent that the exercise price does not represent the fair value of the underlying shares. The amount at which the put and call options may be exercised is contractually determined based on the 31 May 2020 audited results at a six times net profit after tax multiple. This formula has been used in determining the total value of the put option liability. As the VAS operations disposal group (which included Airvantage and AV Technology) was sold at a similar net profit after tax multiple, the multiple is deemed to be representative of a fair market multiple to be used in calculating the value of the shares. However, 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 critical accounting judgement as were taken into account in the "Fair value of the contingent consideration receivable" assessment above, with management concluding the following:

Total value of Airvantage put option liability on 30 April 2020 (A)	158 213
Attributed probability percentage of the solvency and liquidity of Cell C remaining unproven (B)	49%
Extent that the exercise price does not represent the fair value of the underlying shares (A x B)	77 524

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 R158 million would have been recognised. The put option over the shares of AV Technology is considered to be at fair value as the operations and results of the entity upon which the valuation is based have remained largely unchanged and six times net profit multiple is consistent with the earnings multiple at which the shares in the entity have been disposed of.

Annexure A: Shareholder analysis

SHAREHOLDER SPREAD	Number	%	Shares	%
1 – 10 00 shares	3 179	52.65	816 902	0.09
1 001 – 10 000 shares	1 815	30.06	7 205 212	0.79
10 001 – 100 000 shares	748	12.39	25 222 076	2.76
100 001 – 1 000 000 shares	211	3.49	65 651 974	7.18
1 000 001 shares and over	85	1.41	814 759 710	89.18
Totals	6 038	100	913 655 874	100

DISTRIBUTION OF SHAREHOLDERS	Number	%	Shares	%
Private investor	247	4.09	286 143 259	31.32
Unit trusts	67	1.11	141 523 122	15.49
Corporate holding	3	0.05	124 826 978	13.66
Unclassified	22	0.36	113 097 733	12.38
Hedge fund	6	0.10	56 043 988	6.13
Mutual fund	20	0.33	26 077 778	2.85
Trading position	12	0.20	19 834 774	2.17
Insurance companies	14	0.23	11 944 827	1.31
Other managed funds	8	0.13	6 312 520	0.69
Custodians	7	0.12	2 514 903	0.28
University	5	0.08	1 737 576	0.19
Exchange traded fund	1	0.02	1 101 182	0.12
Medical aid scheme	4	0.07	1 098 431	0.12
Venture capital	2	0.03	1 035 027	0.11
Local authority	1	0.02	644 153	0.07
Investment trust	2	0.03	238 996	0.03
Charity	1	0.02	87 420	0.01
Remainder	5 616	93.01	119 393 207	13.07
Totals	6 038	100	913 655 874	100

PUBLIC/NON-PUBLIC SHAREHOLDERS	Number	%	Shares	%
Non-public shareholders	12	0.20	324 376 285	35.50
Directors and associates	10	0.16	198 665 237	21.74
Strategic holdings (more than 10%)	1	0.02	100 000 000	10.95
Treasury stock	1	0.02	25 711 048	2.81
Public shareholders	6 026	99.80	589 279 589	64.50
Totals	6 038	100	913 655 874	100

Annexure A: Shareholder analysis continued

BENEFICIAL SHAREHOLDERS HOLDING 2% OR MORE	Shares	%
Shotput Investments Proprietary Limited	100 000 000	10.95
BM Levy	77 674 947	8.50
MS Levy	70 267 539	7.69
Allan Gray Balanced Fund	42 917 296	4.70
Engineering Industries Pension Fund	34 481 076	3.77
Acanthin	31 809 258	3.48
ERZ Telecoms CC	26 943 509	2.95
Blue Label Telecoms Limited	25 711 048	2.81
MIBFA MIPF	23 883 963	2.61
Government Employees Pension Fund (PIC)	21 976 210	2.41
Totals	455 664 846	49.87

SHAREHOLDERS HOLDING 2% OR MORE	Shares	%
Shotput Investments Proprietary Limited*	100 000 000	10.95
Allan Gray Proprietary Limited	93 973 218	10.29
BM Levy	84 993 442	9.30
MS Levy	77 586 033	8.49
MIBFA	56 706 518	6.21
ERZ Telecoms CC	26 943 509	2.95
Blue Label Telecoms Limited	25 711 048	2.81
Equinox Partners LP	23 853 164	2.61
The Vanguard Group Inc.	20 940 350	2.29
Totals	510 707 282	55.90

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

Administration

Directors

LM Nestadt (Chairman)*, BM Levy, MS Levy, K Ellerine**, GD Harlow*, JS Mthimunye*, DA Suntup, J Vilakazi*

(*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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Facebook:	www.facebook.com/BlueLabelTelecoms
Twitter:	@BlueLabelTeleco
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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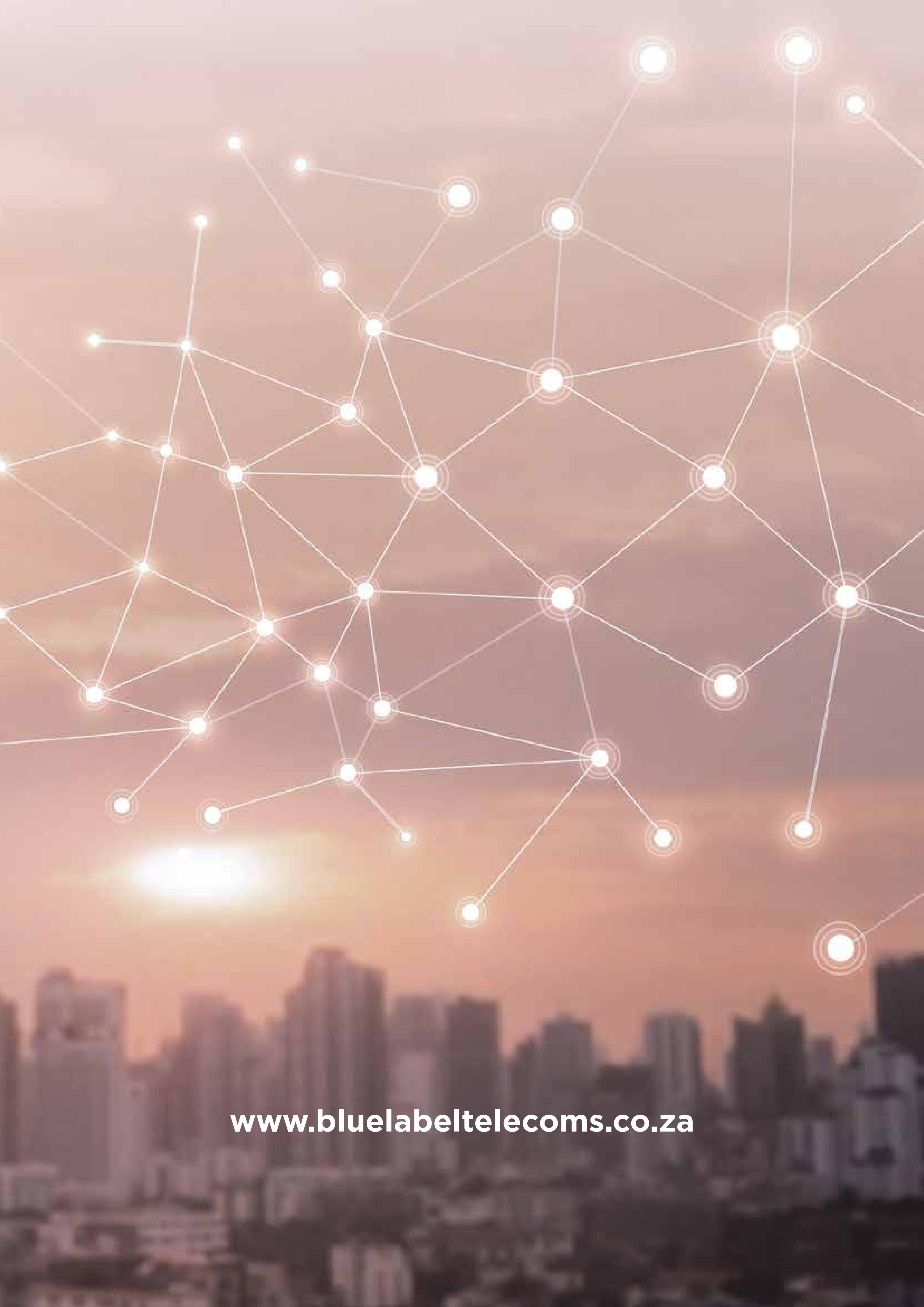

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