3. INVESTMENTS IN SUBSIDIARIES continued

The Prepaid Company Proprietary Limited continued

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

	2023
Average EBITDA margin %	2.0
Terminal growth %	4.5
Pre-tax discount rate (%)	22.1

The discount rates used were pre-tax and reflected specific risks relating to The Prepaid Company Proprietary Limited. The growth rate was 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 the markets in which the companies operate. BLT's target debt-to-equity ratio was applied in the calculation of the weighted average cost of capital.

Based on the calculation performed, no impairment loss was recognised in the prior year. If one or more of the inputs were changed to a reasonable possible alternative, there would have been no impairments that would have had to be recognised.

WiConnect Proprietary Limited

BLT's investment in WiConnect Proprietary Limited was fully impaired in FY20. The Directors of WiConnect Proprietary Limited are still in the process of realising all assets and settling all liabilities, after which they will consider deregistering WiConnect Proprietary Limited.

4. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Accounting policy

Investments in associates and joint ventures are carried at cost less any accumulated impairment losses in BLT's annual financial statements.

The following table lists all of the associates and joint ventures of BLT:

Name of company	Number of shares issued	**% ownership interest 2024**	% ownership interest 2023	**Carrying amount 2024 R'000**	Carrying amount 2023 R'000
Utilities World Proprietary Limited	1 000	**25.10**	25.10	**12 046**	12 046
T3 Telecoms SA Proprietary Limited	50	**50.00**	50.00	**—***	—*
Blue Label Communications Proprietary Limited	100	**20.00**	20.00	**—***	—*
Blu Train Group Proprietary Limited	100	**10.00**	10.00	**—***	—*
				12 046	12 046

* Less than R1 000.

All entities listed above are incorporated in South Africa.

5. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Accounting policy

Financial assets and liabilities are recognised when BLT 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 BLT has the right to defer settlement beyond 12 months of the statement of financial position date.

Classification

BLT classifies financial assets on initial recognition as measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss on the basis of BLT's business model for managing the financial asset and the cash flow characteristics of the financial asset.

BLT classifies its financial assets to be measured at amortised cost only if the asset is held within a business model whose objective is 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.

Financial assets that do not qualify for measurement at either amortised cost or fair value through other comprehensive income are classified as at fair value through profit or loss.

Financial liabilities are classified as measured at amortised cost or measured at fair value through profit or loss.

BLT had no investments in equity instruments during the current or prior year that were accounted for in accordance with IFRS 9. BLT did not classify any of its financial instruments to be measured at fair value through other comprehensive income during the current or prior year.

Financial assets are not reclassified unless BLT changes its business model for managing those financial assets. Financial liabilities are not reclassified.

Equity investments that are held-for-trading, or equity investments for which the entity has not elected to recognise fair value gains and losses through other comprehensive income are classified as financial assets at fair value through profit or loss.

Measurement

At initial recognition, BLT measures a financial instrument 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.

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 (FVPL)	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 BLT 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

BLT 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 BLT in accordance with the contract and the cash flows that BLT expects to receive). ECLs are discounted at the original effective interest rate of the financial asset.

5. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

Categories of financial assets

	Notes	2024 R'000	2023 R'000
At amortised cost			
Loans to group companies	6	**1 819 863**	1 763 210
Other receivables*	7	**—**	20 000
Cash and cash equivalents	8	**3 310**	1 389
		1 823 173	1 784 599

Categories of financial liabilities

	Notes	2024 R'000	2023 R'000
At amortised cost			
Trade and other payables**	10	**2 048**	1 123

* Carrying value per statement of financial position is R0.473 million (2023: R20.458 million) which includes R0.473 million (2023: R0.458 million) relating to prepaid expenses, which are not financial assets.

** Carrying value per statement of financial position is R2.048 million (2023: R2.555 million) which includes Rnil million (2023: R1.434 million) relating to tax payables, which are not financial liabilities.

Capital risk management

BLT's objectives when managing capital are to safeguard BLT'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, BLT may issue new shares, adjust the amount of dividends paid to shareholders, return capital to shareholders or sell assets to reduce debt. BLT defines capital as capital and reserves and non-current borrowings. The Group is required to maintain a market capitalisation of R3 billion in terms of its covenants with Investec Bank in respect of TPC's working capital facility.

FINANCIAL RISK MANAGEMENT

Overview

BLT is exposed to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk; and
- market risk (interest rate risk).

BLT seeks to minimise potential adverse effects on financial performance of BLT. The Directors provide principles for overall risk management, interest rate risk, credit risk, and investing excess liquidity.

5.1 Credit risk

Credit risk, or the risk of financial loss to BLT due to customers or counterparties not meeting their contractual obligations, is managed through the application of credit approvals, limits and monitoring procedures. BLT is exposed to credit risk on loans to group companies, loans receivable, other receivables, cash and cash equivalents and financial guarantee contracts. The carrying amounts of financial assets represent the maximum credit exposure.

Expected credit losses

BLT tracks significant increases in credit risk using information available to BLT regarding the counterparty credit risk. Furthermore, this is supplemented by taking into account the performance of the counterparty to the financial asset in question, as well as data from Moody's Analytics where applicable.

BLT calculates its allowance for credit losses for financial assets measured at amortised cost using expected ECLs.

ECLs were determined by BLT 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 BLT.

Moody's Analytics is used to incorporate forward looking information in the determination of ECLs. Moody's consider the effect of various macro-economic phenomena and events such as Covid-19 to be embedded in the underlying actual results of entities, and as a result reflected in the probability of default (PD) assumption of underlying ECL methodologies. As such, no significant overlays or other adjustments, other than the macro-economic forecasts, have been included in the current and prior financial year.

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% (2023: 40%, 30%, 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.

Significant increases in credit risk can be evaluated with reference to movements in the balances between the grouping categories used throughout this note.

Management defines default as the situation when counterparties fail to make payments in a timely manner, i.e. within 60 days of when payment is contractually due or payments are demanded for financial assets with no fixed repayment terms (payable on demand), and future payments are either suspended or unlikely.

Where the expected lifetime of an asset is less than 12 months, expected losses are measured at its expected lifetime.

Loans and financial guarantees are only granted to holders with an appropriate credit history, taking into account the holder's financial position and past experience.

For counterparties where no external credit ratings are available, BLT has used a management-determined credit risk rating model. The management of BLT performs a rigorous internal rating assessment process of all external counterparty credit risk exposures and rates these exposures grouping them into the below groups which are then aligned to equivalent Moody's sourced default ratings.

- The groupings mentioned above are generally aligned to the staging requirements of IFRS 9 as follows:
- Group 1 financial assets are typically Stage 1.
- Group 2 financial assets are typically Stage 1, with minor Stage 2 balances.
- Group 3 financial assets are typically Stage 1 and Stage 2 balances.
- Group 4 financial assets are typically Stage 3.

Refer to note 6 for further detail on the ECL process applied to loans to group companies.

Credit risk exposure arising on cash and cash equivalents is managed by BLT through dealing with well-established financial institutions with high credit ratings. Refer to note 8 for details on these financial institutions and their credit ratings.

The maximum exposure to credit risk is presented in the table below:

Categories of financial assets

2024	Notes	Gross carrying amount R'000	Credit loss allowance R'000	Carrying amount R'000
Loans to group companies	6	**3 047 858**	**(1 227 995)**	**1 819 863**
Cash and cash equivalents	8	**3 310**	**—**	**3 310**
		3 051 168	**(1 227 995)**	**1 823 173**
2023				
Loans to group companies	6	2 619 270	(856 060)	1 763 210
Other receivables	7	20 000	—	20 000
Cash and cash equivalents	8	1 389	—	1 389
		2 640 659	(856 060)	1 784 599

5. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

5.2 Liquidity risk

Liquidity risk is the risk that BLT will not be able to meet its financial obligations as they fall due, both under normal and stressed circumstances.

BLT's objective is to maintain prudent liquidity risk management by maintaining payment obligations and sufficient cash and marketable securities, as well as the availability of funding through an adequate amount of committed credit facilities. Company finance monitors rolling forecasts of BLT's liquidity requirements to ensure it has sufficient cash to meet operational needs. Due to the dynamic nature of the underlying businesses, BLT aims to maintain flexibility in funding by keeping committed credit lines available.

Refer to note 11 for details regarding pledges and guarantees issued by BLT.

The table below analyses the undiscounted cash flows for BLT's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. As the amounts included in the table are the contractual undiscounted cash flows, these amounts will not necessarily reconcile to the amounts disclosed on the statement of financial position.

	Notes	Less than one month or on demand R'000	More than one month but not exceeding one year R'000	More than 1 year but not exceeding 2 years R'000	More than 2 years but not exceeding 5 years R'000	Total R'000
2024						
Trade and other payables	10	**17**	**2 031**	**—**	**—**	**2 048**
Financial guarantee contracts	11	**—**	**1 877 000**	**100 000**	**75 000**	**2 052 000**
		17	**1 879 031**	**100 000**	**75 000**	**2 054 048**
2023						
Trade and other payables	10	1 453	1 102	—	—	2 555
Financial guarantee contracts	11	—	1 780 000	100 000	175 000	2 055 000
		1 453	1 781 102	100 000	175 000	2 057 555

In the unlikely event that the unrecognised portion of the financial guarantee is called upon, BLT will access funds from group companies to settle these.

5.3 Market risk

Market risk is the risk that changes in market prices (interest rate, currency risk and/or price risk) will affect BLT'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.

BLT is exposed to risks from movements in interest rates that affect its assets, liabilities and anticipated future transactions. BLT is not exposed to foreign currency risk as it does not have any transactions or balances in currencies other than BLT's functional currency. BLT is not exposed to significant levels of price risk as it does not own any investments that are classified as either at fair value through other comprehensive income or at fair value through profit or loss.

Interest rate risk

BLT's cash flow interest rate risk arises from cash and cash equivalents carrying interest at variable interest rates and hence exposed to changes in market interest rates. BLT is not exposed to fair value interest rate risk as BLT does not have any fixed interest-bearing instruments carried at fair value.

BLT's exposure to interest rate risk is reflected in the cash and cash equivalents note.

The interest rate sensitivity is based on the following assumptions:
- Changes in market interest rates affect the interest income and expense of variable interest financial instruments.
- 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.

Under these assumptions, a 1% increase or decrease in market interest rates at 31 May 2024 would increase or decrease profit or loss and equity by R33 100 (2023: R13 889).