3.3.3 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.

Critical accounting estimates and assumptions

Management has conducted an assessment of the retained credit risk following the transfer of customer advances related to the three book sales. After comparing the retained credit risk before and after the transfer, and evaluating it against management's internal threshold for retained credit risk, it was determined that for Book Sale One, substantially all credit risk has been transferred. However, for Book Sale Two, the transaction resulted in the derecognition of the book as the transfer qualifies for derecognition, except for a contractually specified portion of the book, referred to as the holdback debtor, for which CEC retained the risks and rewards associated of ownership. This transaction also resulted in CEC obtaining a new financial asset, referred to as the Escrow debtor for which a risk margin is held in an Escrow account. CEC has a contractual right to the remaining balance in the Escrow account at the end of a specified period. The Escrow debtor was recognised at fair value and is measured at fair value through profit or loss. Book Sale Three consisted of fully written-off advances to customers; therefore, the proceeds are considered a recovery of bad debts.

	2024 R'000	2023 R'000
Handset financing and subscription income-sharing receivables	**1 435 817**	2 839 181
Less: Provision for impairment	**(199 458)**	(581 979)
	1 236 359	2 257 202
Amounts included in non-current portion of advances to customers	**485 323**	810 252
Amounts included in current portion of advances to customers	**751 036**	1 446 950

The fair value of the advances to customers approximates their carrying amounts due to the market related discount factor that has been applied to the balances.

Under the Supply, Sale and Financing of Products Agreement effective 1 November 2020, Cell C no longer guarantees bad debts and cancellations and this now exposes the Group to the credit risk of the population of the underlying subscribers who are all customers of Cell C.

In terms of the above agreement, if Cell C is unable or admits inability to make a payment as they fall 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, they would be in breach of their agreement. If not remedied the Group ultimately has a right to port the Cell C base.

3 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

3.3 Financial assets continued

3.3.3 Advances to customers continued

Transferred financial assets

2024	Gross carrying amount R'000	Credit loss allowance R'000	Amortised cost/ fair value R'000
Not derecognised			
Advances to customers*	**66 645**	**(14 987)**	**51 658**
Financial asset recognised			
Escrow receivable at fair value through profit or loss (refer to note 3.5)	**25 063**	**—**	**25 063**
	91 708	**(14 987)**	**76 721**

* This relates to the hold back receivable amount.

	Net carrying amount R'000	Proceeds R'000
2024		
Book Sale One	**469 249**	**437 775**
Book Sale Two	**760 550**	**618 811**
Book Sale Three	**—**	**94 432**
	1 229 799	**1 151 018**

Book Sale One

In September 2023 a financial institution entered into an agreement with CEC, whereby CEC agreed to sell and transfer receivables (all rights, title and interest with respect to the remaining handset fee payable by a subscriber under a subscriber agreement) to the financial institution. The purchase price of the receivable was equal to the outstanding handset fee for such receivable (i.e. no discount). CEC paid the financial institution a monthly facility fee for all debtors sold, calculated by applying the facility fee rate to the outstanding handset receivable balance on the last business day of the month.

The proceeds in respect of book sale one have been reduced by a facility fee of R68 million included in finance costs. Refer to note 1.4.

Book Sale Two

In March 2024, a financial institution and CEC agreed to the following amendments to the original agreement as it relates to book sale two.

The purchase price paid at the date of sale is equal to 90% of the present value of expected contractual cash flows due over the remainder of the subscription term.

CEC agreed that the financial institution may transfer back to CEC, at the end of 4 months, specified non-performing advances referred to as the holdback receivable. Based on the nature of the contractually specified advances, it is virtually certain at the transaction date that CEC will retain ownership of these advances to customers, and therefore at the transaction date, it was determined that CEC retained the risks and rewards associated of ownership relating to the specified advances. Contractually, the advances subject to the holdback arrangement is capped at maximum of 10% of the present value of the expected cash flows of the book sold to the financial institution.

This transaction also resulted in CEC obtaining a new financial asset, referred to as the Escrow debtor for which a risk margin is held in an Escrow account. CEC has a contractual right to the remaining balance in the Escrow account at the end of a specified period. The Escrow debtor was recognised at fair value and is measured at fair value through profit or loss. Included in the financial assets at fair value through profit or loss.

Included in the current portion of advances to customers is R51.6 million relating to the 10% hold back on the book sales that have not been derecognised.

A finance cost of R93 million in respect of book sale two is included in finance costs. Refer to note 1.4.

Book Sale Three

CEC sold receivables which had been written off as irrecoverable to two independent financial institutions for which CEC retained no involvement post the sale.