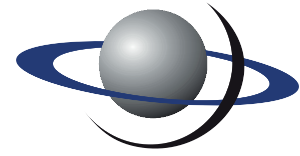


BLUE LABEL TELECOMS

Group Annual Financial Statements 2023

ONE DAY DAY ONE

Day one . . . the starting point of all achievement is desire

DAY ONE

CONTENTS

1	Prominent notice
1	Statement of Directors’ responsibility
2	Approval of the financial statements
2	Joint Chief Executive Officers and Financial Director responsibility statement on internal financial controls
3	Declaration by the Company Secretary
4	Directors’ report
7	Audit, Risk and Compliance Committee’s report
11	Independent auditor’s report
16	Group income statement
16	Group statement of comprehensive income
17	Group statement of financial position
18	Group statement of changes in equity
20	Group statement of cash flows
21	Notes to the Group annual financial statements
118	Annexure A: Shareholder analysis
120	Glossary

PROMINENT NOTICE

These annual financial statements have been audited by our external auditor SizweNtsalubaGobodo Grant Thornton in compliance with the applicable requirements of the Companies Act, No 71 of 2008. 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 2023

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 of 2008.

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 SizweNtsalubaGobodo Grant Thornton 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 29 August 2023 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

JOINT CHIEF EXECUTIVE OFFICERS AND FINANCIAL DIRECTOR RESPONSIBILITY STATEMENT ON INTERNAL FINANCIAL CONTROLS

In line with paragraph 3.84(k) of the JSE Limited Listings Requirements, each of the Directors whose names are stated below, hereby confirm that:

- the annual financial statements set out on pages 16 to 117 fairly present in all material respects the financial position, financial performance and cash flows of the issuer in terms of International Financial Reporting Standards;
- to the best of our knowledge and belief, no facts have been omitted or untrue statements made that would make the annual financial statements false or misleading;
- internal financial controls have been put in place to ensure that material information relating to the issuer and its consolidated subsidiaries have been provided to effectively prepare the financial statements of the issuer;
- the internal financial controls are adequate and effective and can be relied upon in compiling the annual financial statements, having fulfilled our role and function as Executive Directors with primary responsibility for implementation and execution of controls;
- where we are not satisfied, we have disclosed to the Audit Committee and the auditors any deficiencies in design and operational effectiveness of the internal financial controls, and have taken steps to remedy the deficiencies; and
- we are not aware of any fraud involving Directors.

BM Levy
Joint Chief Executive Officer

MS Levy
Joint Chief Executive Officer

DA Suntup
Financial Director

Sandton

29 August 2023

DECLARATION BY THE COMPANY SECRETARY

for the year ended 31 May 2023

In terms of section 88(2)(e) of the Companies Act, No 71 of 2008 (the Act), I confirm that for the year ended 31 May 2023, 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 Act and that all such returns and notices are true, correct and up to date.

J van Eden
Group Company Secretary

Sandton

29 August 2023

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) for the year ended 31 May 2023.

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 touch points. The Group's stated strategy is to extend its global footprint of touch points, 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 2023 of R269 million (2022: R1 027 billion). 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 2023 were approved by the Board and signed on its behalf on 29 August 2023.

SHARE CAPITAL

Full details of the authorised, issued and unissued capital of the Company at 31 May 2023 are contained in note 6.1 of the Group annual financial statements.

DIVIDENDS

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

CELL C RECAPITALISATION TRANSACTION

On 26 August 2021, TPC concluded a term sheet for an Airtime Purchase transaction with Investec Bank Limited, FirstRand Bank Limited (acting through its Rand Merchant Bank division) and other financiers, the proceeds of which were intended to be utilised for the recapitalisation of Cell C. This arrangement was subject to the conclusion of all legal documentation and fulfilment of all conditions precedent under such legal documentation, which occurred at the end of September 2022. On 15 March 2022, Blue Label concluded a non-binding term sheet (Umbrella Restructure Term Sheet) with Cell C and various Cell C financial stakeholders (including certain shareholders and creditors of Cell C). In terms of the Umbrella Restructure Term Sheet, Cell C was to be restructured and refinanced (the Recapitalisation Transaction) with the purpose of deleveraging its balance sheet, providing it with liquidity with which to operate and grow its businesses and to position itself to achieve long-term success for the benefit of its customers, employees, creditors, shareholders and its other stakeholders. The Umbrella Restructure Term Sheet was non-binding, save for stand-still provisions and certain provisions of a general nature which were binding. The binding long-term agreements and the recapitalisation process, the completion of which endured for longer than initially anticipated, was effective and closed end September 2022. Refer to note 2.1.1 of the annual financial statements for details of the transaction.

GOING CONCERN

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within its current funding levels into the foreseeable future.

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources and facilities to continue in operational existence for the foreseeable future and is not at risk of breaching its covenants. 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 (Chairman)	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	Resigned 5 June 2023
Gary D Harlow	Independent Non-Executive Director	5 October 2007	Resigned 19 October 2022
Nomavuso P Mnxasana	Independent Non-Executive Director	18 September 2020	—
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	—
Lazarus P Zim	Independent Non-Executive Director	23 October 2020	Resigned 22 February 2023
Lindiwe E Mthimunye	Independent Non-Executive Director	1 November 2022	—
Happy Masondo	Independent Non-Executive Director	1 August 2023	—

DIRECTORS' INTERESTS

The individual interests declared by Directors in the Company's share capital as at 31 May 2023, held directly or indirectly, were as follows:

	Nature of interest			
	Direct beneficial		Indirect beneficial	
Director/officer	**2023**	2022	**2023**	2022
LM Nestadt (Chairman)	**—**	—	**10 000 000**	10 000 000
BM Levy	**69 591 549**	67 424 914	**17 772 777**	17 772 777
MS Levy	**62 184 141**	60 017 506	**17 772 777**	17 772 777
KM Ellerine*	**—**	—	**120 000 000**	120 000 000
GD Harlow#	**—**	—	**—**	1 285 114
JS Mthimunye	**130 000**	130 000	**242 573**	242 573
DA Suntup	**5 106 011**	3 958 476	**177 778**	177 778
SJ Vilakazi	**—**	—	**8 200**	8 200

* KM Ellerine is a beneficiary of these shares together with multiple other beneficiaries. KM Ellerine resigned subsequent to the financial year end, effective 5 June 2023.

\# Resigned during the financial year, effective 19 October 2022.

There was no change in the interests held by Directors between 31 May 2023 and the date of approval of these annual financial statements.

The aggregate interest of the current Directors in the capital of the Company was as follows:

	Number of shares	
Director/officer	**2023**	2022
Beneficial	**302 985 806**	298 790 115

The beneficial interest held by Directors and officers of the Company constitutes 33.16% (2022 32.70%) 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.

DIRECTORS' REPORT CONTINUED

RESOLUTIONS

On 24 November 2022, the Company passed and filed with the Companies and Intellectual Property Commission the following special resolutions:

- approving the remuneration of Non-Executive Directors;
- granting a general authority to repurchase the Company's shares; and
- approval to grant financial assistance in terms of sections 44 and 45 of the Companies Act, No 71 of 2008.

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 Ms 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 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

Following the conclusion of a comprehensive tender process, the Audit, Risk and Compliance Committee has recommended, and the Board of Directors has endorsed, the appointment of SizweNtsalubaGobodo Grant Thornton Inc. (SNGGT) as the independent external auditors of Blue Label with effect from 6 February 2023. SNGGT 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 2023.

The ARCC 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 financial statements and reporting of interim and final results;
- reviewing and considering, 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 Group Compliance Officer;
- ensuring 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;
- ensuring that the disclosure regarding risk is comprehensive, timely and relevant;
- ensuring that a combined/integrated assurance model is applied to provide a co-ordinated approach to all assurance activities and appropriately address 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;
- establishing, implementing, and maintaining a compliance function with adequate policies and procedures to ensure compliance with rules, regulations, statutes and procedures applicable to Blue Label;
- reporting annually to the Board and shareholders describing the Committee's composition, responsibilities, and how they were discharged, as well as any other information required by rule, including the approval of non-audit services;
- resolving any disagreements between management and the auditor regarding financial reporting;
- retaining independent counsel, accountants, or others to advise the Committee or assist in the conduct of an investigation;
- seeking any information it requires from employees – all of whom are directed to co-operate with the Committee's requests – or external parties; and
- meeting with the organisation's officers, external auditors, internal auditors, or outside counsel as necessary.

MEMBERSHIP AND MEETINGS HELD

In accordance with the requirements of the Companies Act, No 71 of 2008 (the Companies Act), Mr JS Mthimunye, Ms NP Mnxasana and Mr SJ Vilakazi were appointed to the Committee by shareholders at the AGM held on 24 November 2022 in the following positions:

- JS Mthimunye (Independent Non-Executive Chairman);
- NP Mnxasana (Independent Non-Executive Director); and
- SJ Vilakazi (Independent Non-Executive Director).

On 1 November 2022, Ms LE Mthimunye was appointed to the Committee by the Blue Label Board of Directors.

The members of the Committee collectively have experience in audit, accounting, commerce, economics, law, corporate governance and general industry. All 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 PwC or SNGGT (as applicable) and a director from Deloitte, 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.

AUDIT, RISK AND COMPLIANCE COMMITTEE'S REPORT

CONTINUED

STATUTORY DUTIES DISCHARGED

In execution of its statutory duties during the year under review, the Committee:

- nominated and recommended to shareholders the reappointment of PricewaterhouseCoopers Inc. (PwC) as independent external auditors, with Pietro Calicchio, the audit partner, as the registered independent auditor;
- on 6 February 2023, following the conclusion of a comprehensive tender process, the Audit, Risk and Compliance Committee recommended the appointment of SNGGT as the external auditors of Blue Label, with Mr A Philippou as the designated individual audit partner;
- approved the fees to be paid to PwC, SNGGT 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 or SNGGT (as applicable) 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, and key risks identified in the enterprise-wide risk management (ERM) process, as appropriate.

OTHER DUTIES TO DISCHARGE

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 financial statements;
- reviewed feedback from the JSE proactive monitoring panel and included additional disclosure where relevant;
- reviewed and confirmed compliance with the JSE regulations relating to the financial sign-off by the CEO and CFO on the internal financial framework;
- 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, SNGGT, as set out in section 94(7) of the Companies 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 SNGGT that internal governance processes within the firm support and demonstrate its claim to independence. SNGGT has been the auditor of the Company for one year.

To assess the effectiveness of the external auditors, the Committee considered the quality, delivery and execution of the agreed audit plan and variations from the plan, as well as the robustness and perceptiveness of SNGGT in its handling of key accounting treatments and disclosures. The ARCC has been informed of the most recent results of SNGGT'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 2023 financial year.

Any non-audit services to be provided by the external auditors 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 auditors during the year ended 31 May 2023 comprised tax advisory services, tax compliance services and general advisory services.

The fees applicable to the services totalled R7.5 million (2022: R3.1 million).

The ARCC has nominated, for approval at the AGM, the reappointment of SNGGT as registered auditors for the 2024 financial year. The Committee also satisfied itself in terms of paragraph 3.84(g)(iii) of the JSE Listings Requirements that SNGGT 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 was outsourced to Deloitte for the year and going forward 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.

The Committee:
- reviewed the co-operation and co-ordination 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 2022/23 audit plan;
- considered the combined/integrated assurance arrangements for the 2022/23 financial year;
- approved the risk-based internal audit plan for the 2022/23 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 concluded that appropriate financial reporting procedures have been established and were operating, as contemplated in paragraph 3.84(g)(ii) of the JSE Listings Requirements, which includes consideration of all the entities in the consolidated annual financial statements.

In carrying out its responsibility of ensuring appropriate financial reporting procedures are in place, the ARCC has had oversight of the procedures performed by management to ensure that internal financial controls are adequate in design and operating effectiveness, and has considered all deficiencies reported by management to the ARCC and external auditors together with steps taken to remedy such deficiencies.

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 risk tolerance and appetite, and monitored the management of risk exposures against these levels;
- reviewed and recommended to the Board the 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 had 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 Company's 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 and has satisfied itself in terms of JSE Listings Requirement 3.84(g)(i) that the Group Financial Director has appropriate expertise and experience.

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 Mr 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.

AUDIT, RISK AND COMPLIANCE COMMITTEE'S REPORT

CONTINUED

ANNUAL FINANCIAL STATEMENTS

The Committee has reviewed the accounting policies and 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 of South Africa.

The Committee has evaluated the Group annual financial statements of Blue Label Telecoms Limited for the year ended 31 May 2023 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 going concern and valuation of Cell C, post-paid contract device arrangement and the recapitalisation of Cell C.

These matters were addressed as follows:

The impairment reversal and going concern of Cell C

For the interim period 30 November 2022, management reviewed the carrying value of the Group's investment in Cell C in accordance with the requirements of IAS 36, due to an indication of reversal of the previous impairment as a result of the recapitalisation transaction. The investment was fully impaired in prior years. The review was performed as follows:

- assessing the recoverable amount as being value-in-use, as Cell C is held-for-trading and not for sale;
- calculating the value-in-use of Cell C using a discounted cash flow model;
- carefully considering the inputs used in deriving the appropriate discount rate and projected cash flows used in the calculation; and
- performing a sensitivity analysis over the value-in-use calculation, by varying the assumptions used (growth rates, terminal growth rate and WACC, i.e. discount rate) to assess the impact of any changes on the valuation performed.

Based on the work performed, management concluded that a portion of the impairment loss in Cell C, recognised in prior years, was no longer observable and could be reversed. The sensitivities were stress tested at year-end and no further adjustments were required.

Management further assessed the changes made to the Cell C business strategy, change to their network structure and the implementation of a fixed cost infrastructure, together with the effects of the capital and debt restructure of the business as a result of the recapitalisation of Cell C. The effects of this are expected to improve both the liquidity and performance of Cell C. As a result, management assessed Cell C to be a going concern.

Post-paid contract device arrangement

For the year ended 31 May 2023, as a result of an amendment made in the contractual arrangement between CEC and Cell C, management performed the following assessment over the recognition of the revenue and stock under this arrangement:

- considered its revenue recognition criteria under IFRS 15 and whether the revenues earned under this arrangement were as agent or principal;
- assessed whether the Group in fact assumed the risk of ownership of stock and is primarily responsible in delivering the devices to the customer; and
- assessed whether the handset subsidy cost was an incremental cost of obtaining a contract.

Based on the work performed, management concluded that revenue earned under this arrangement should be accounted on the principal basis. This is because the amended clauses now provide that the Group is primarily responsible for delivering the handset to the customer, that the Group controls the stock prior to delivery to the customer, that stock risk is specifically in the Group's hands and stock should be recognised and included in the stock held as inventory at year-end. Furthermore, the handset subsidy costs are an incremental cost of obtaining a contract and reflect the substance of the arrangement.

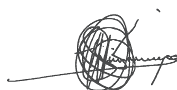
The recapitalisation of Cell C

Management undertook a rigorous process of assessing the IFRS, tax and legal requirements of each step of the recapitalisation transaction, as well as undertaking a detailed control assessment.

Based on this, management has concluded that the transaction was accounted for and recorded in line with the statutory requirements and appropriately reflects the substance of the transactions entered into.

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

29 August 2023

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF BLUE LABEL TELECOMS LIMITED

OPINION

We have audited the Consolidated Financial Statements of Blue Label Telecoms Limited (the Group) set out on pages 16 to 117, which comprise the Consolidated Statement of Financial Position as at 31 May 2023, and the Consolidated Statement of Profit or Loss and Other Comprehensive Income, the Consolidated Statement of Changes in Equity and the Consolidated Statement of Cash Flows for the year then ended, and notes to the Consolidated Financial Statements, including a summary of significant accounting policies.

In our opinion, the Consolidated Financial Statements present fairly, in all material respects, the Consolidated Financial Position of Blue Label Telecoms Limited as at 31 May 2023, and its Consolidated financial performance and Consolidated Cash Flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

BASIS FOR OPINION

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 are independent of the Group and company in accordance with the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of Financial Statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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. Key Audit Matters in the current year include:

Key audit matter	How our audit addressed the key audit matter
Going Concern and Valuation of Cell C	
The Group's investment in Cell C is assessed at each reporting period and when there is an indication that the investment may be impaired. The Group should also assess at each reporting period whether the impairment loss recognised in previous reporting periods can be reversed. If an indication of possible reversal is identified, management must estimate the recoverable amount of that asset. Evidence was available during the reporting period, from internal reporting sources, which indicated the economic performance of its investment is, or will be, better than expected. The Group has performed a Value In Use Calculation at that point to determine whether the previously recognised impairment should be reversed. Based on the results of the valuation, which was performed by management's expert, a reversal of impairment of Cell C amounting to R962 million was recognised as well as the recognition of losses in Cell C to the value of R1.3 billion. At year end, no further indicators were present, which was not already taken into account, and the Value In Use Calculation, as well as the significant inputs were stress-tested. No further adjustment was required at the reporting date.	The Value in Use calculation performed by management during the reporting period was assessed and reperformed and no material differences relating to the valuation has been identified. The reversal of impairment was recalculated by the audit team using the valuation and the historical impairment schedule. We also reviewed the significant inputs used by management, which included the growth rates, including the discrete growth rate assumptions to extrapolate cash flows, and the pre-tax discount rate used. We also reviewed the relevant assumptions applied in determining the Value In Use of the investment. It's an overarching principle of the Value In Use estimate that assumptions should be reasonable and supportable and in this respect, we carefully considered the risk factors present in the Group's holding of the investment in Cell C. In particular IAS 36 requires the valuation to incorporate expectations around possible variations in the timing or amount of the cash flows and the price of bearing the uncertainty inherent in the investment. We assessed the distress overlay, amongst other inputs, applied by management in the Value In Use calculation and the relevant assumptions taken into account. We deemed the inputs and assumptions appropriate for the purposes of the valuation performed. At the reporting date, we assessed whether there were any additional indicators present which could indicate that the impairment loss reversal should be adjusted. In addition, we recalculated the stress tests performed by management, and considered whether the stress test were sufficiently robust. The Value In Use calculated during the period, when the indicators were present where found to be appropriate and no further adjustment required. The share of losses relating to the investment in Cell C were recalculated and no material differences were identified.
Post-Paid Contract Device Arrangement	
CEC amended the terms of its revenue and subscription income agreement with Cell C as it relates to the sale of contract devices to subscribers as customers of BLT. The contract was amended to allow the Group to control the stock and the risks related to stock holding up to the point of sale to the customer. The change in the agreement resulted in the Group controlling the inventory in the Cell C warehouse. Consequently, the subsidies on the handsets are now considered an incremental cost in obtaining a contract with the customer and have been recognised and included in advances to customers.	The accounting treatment relating to the Post-Paid Contract Device Arrangement was assessed with the assistance of technical reporting specialists, in accordance with the requirements of IFRS 15 and established industry practice. We specifically focused on the transfer of control of devices to CEC and the delivery of those devices to customers by considering both the amended contractual arrangement in place, and the practical changes made by both parties to transfer such control to CEC. The revenue recognition of the handset sales where CEC now acts as a principal has been assessed and is in line with the requirements of IFRS 15 in determining whether the Group controls the device before it is transferred to a customer and whether the Group is primarily responsible for fulfilling the promise to provide the devices to the post paid customer base. A stock count has been performed to confirm the existence of the inventory at the reporting date. The recognition of the subsidy of handset sales to customers has been assessed as appropriate, the classification of the asset as a receivable, included in advances to customers (cross refer) is also considered appropriate as the costs will be primarily recovered from the post paid base, and appropriately reflects the substance of the amended contractual arrangement entered into between Cell C and CEC.

Key audit matter	How our audit addressed the key audit matter
Recapitalisation of Cell C	
During the current year, the Group concluded a robust recapitalisation process with Cell C and various financiers to deleverage the Statement of Financial Position and ensure the continued liquidity and success of Cell C. The transactions involved, amongst others, transactions within the Group with Blue Label Telecoms Limited, The Prepaid Company and Comm Equipment Company. The provisions of the agreements relating to the recapitalisation are complex and included in detail in the financial statements (note 2.1.1). As a result of the restructure and various transactions with Group entities and shareholders with Cell C, the Group's total shareholding is 63.19%, of which 13.66% is non-participatory.	The accounting treatment and relating presentation and disclosure of the recapitalisation transactions have been assessed with the support of technical reporting specialists. We reviewed the position papers prepared by management as well as the term sheets and agreements entered into as it pertains to the Group. Open and robust discussions with management were held where the positions taken by management were challenged. After lengthy discussions were held with both management of the Group and management of Cell C, and through applying professional judgement, the positions taken by management were accepted without material deviation. The presentation and disclosure of the transactions in the AFS were carefully considered so as to ensure the information is appropriately presented and complete, specifically as it relates to significant judgements made in applying the standards and the accounting policies of the Group. With assistance from tax specialists, the tax treatment of these transactions were assessed. The tax positions of the Group were considered and after lengthy discussions, the positions were accepted with no material deviations. The valuations as performed by management's valuation experts relating to the agreement on its inception date has been assessed with assistance from valuation specialists and no material differences have been identified. The increase in the percentage shareholding in Cell C to 63.19% was carefully considered to determine whether The Prepaid Company controls Cell C after concluding the recapitalisation. We specifically considered whether TPC has power of the investee by considering the board representation, and all relevant facts and circumstances which could give TPC the practical ability to exercise power over Cell C. It was concluded that Cell C remains an associate for the reporting period as the criteria for control as per IFRS10.7 was not met. We will continually assess the relationship between TPC, the Group and Cell C.

OTHER MATTER

The consolidated financial statements of Blue Label Telecoms Limited for the year ended 31 May 2022 were audited by PricewaterhouseCoopers Inc. who expressed a modified opinion on those statements on 25 August 2022.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the document titled "Blue Label Group Annual Financial Statements 2023", and in the document titled "Blue Label Telecoms Limited Annual Financial Statements 2023", which includes the Directors' Report, the Report of the Audit and Risk Committee and the Certificate 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 2023", which is expected to be made available to us after that date. The other information further comprises the Shareholder Analysis on page 118 to 119. The other information does not include the consolidated financial statements and our audit report thereon.

Our opinion on the Consolidated Financial Statements does not cover the other information and we do 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 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, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT CONTINUED

TO THE SHAREHOLDERS OF BLUE LABEL TELECOMS LIMITED

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, amongst 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, related safeguards.

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 SizweNtsalubaGobodo Grant Thornton Inc. has been the auditor of Blue Label Telecoms Limited for one year.

Alex Philippou
SizweNtsalubaGobodo Grant Thornton Inc.
Engagement Director
Registered Auditor

29 August 2023

221 Garstfontein Road
Newlands
Pretoria
Gauteng

GROUP INCOME STATEMENT

for the year ended 31 May 2023

	Notes	2023 R'000	2022 R'000
Revenue	1.2	**18 595 905**	17 395 281
Finance revenue	1.2	**322 358**	410 981
Total revenue	1.2	**18 918 263**	17 806 262
Other income		**90 176**	390 851
Direct operating costs*		**(15 435 188)**	(14 858 153)
Finance costs incurred in the generation of revenue		**—**	(17 135)
Employee compensation and benefit expense	5.2	**(945 501)**	(780 255)
Depreciation and amortisation		**(190 440)**	(174 045)
Fair value movements	1.3	**69 276**	63 246
Bad debts and expected credit loss	1.3	**(736 925)**	(327 761)
Loss on modification of financial instruments	1.3	**(57 453)**	—
Other expenses		**(585 722)**	(578 561)
Operating profit	1.3	**1 126 486**	1 524 449
Finance costs	1.4	**(682 599)**	(201 225)
Finance income	1.4	**411 540**	80 993
Reversal of impairment of investment in associate	2.1.2	**962 531**	—
Share of (losses)/gains from associates and joint ventures	2.1.2	**(1 329 747)**	8 042
Profit before taxation		**488 211**	1 412 259
Taxation	7.1	**(200 038)**	(320 262)
Profit for the year		**288 173**	1 091 997
Profit for the year attributable to:			
Equity holders of the parent		**268 966**	1 027 079
Non-controlling interest		**19 207**	64 918
Earnings per share for profit attributable to:			
Equity holders (cents)			
– Basic	1.5	**30.48**	117.13
– Diluted	1.5	**30.07**	114.14

* Direct operating expenses are the operating expenses directly attributable to the production of goods and services sold by the Group. These include, but are not limited to, the costs associated with the acquisition of airtime and handsets sold by the Group.

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 May 2023

	2023 R'000	2022 R'000
Profit for the year	**288 173**	1 091 997
Other comprehensive income:		
Items reclassified to profit or loss		
Ineffective portion of hedging instruments reclassified to profit or loss*	**(639)**	—
Effective portion of hedging instrument reclassified to profit or loss*	**(13 677)**	(2 680)
Income tax related to amounts reclassified to profit or loss	**3 770**	750
Items that may be subsequently reclassified to profit or loss		
Foreign exchange profit on translation of associates and joint ventures**	**1 646**	1 251
Gain arising on changes in fair value of hedging instruments (effective portion)	**8 693**	10 262
Income tax related to gains recognised in other comprehensive income	**(2 347)**	(2 635)
Other comprehensive (loss)/income for the year, net of tax	**(2 554)**	6 948
Total comprehensive income for the year	**285 619**	1 098 945
Other comprehensive income for the year attributable to:		
Equity holders of the parent	**266 412**	1 034 027
Non-controlling interest	**19 207**	64 918

* These items reduce finance costs.

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

GROUP STATEMENT OF FINANCIAL POSITION

as at 31 May 2023

	Notes	31 May 2023 R'000	31 May 2022 R'000
ASSETS			
Non-current assets		**5 700 072**	3 499 479
Property, plant and equipment	4.3	**224 362**	195 313
Right-of-use assets	4.4	**24 577**	36 266
Intangible assets	4.2	**1 583 231**	1 665 549
Goodwill	4.1	**717 475**	681 754
Investments in associates and joint ventures[1]	2.1.2	**83 185**	76 147
Loans to associates and joint ventures[1]	2.1.2	**1 913 645**	22 745
Loans receivable	3.3.1	**65 386**	48 913
Advances to customers	3.3.3	**810 252**	547 711
Financial assets at fair value through profit or loss	3.5	**113 151**	133 293
Financial assets at fair value through other comprehensive income	3.7	**—**	8 536
Deferred taxation assets	7.2	**164 808**	83 252
Current assets		**9 018 238**	9 829 505
Loans to associates and joint ventures[1]	2.1.2	**241 402**	25 858
Inventories	4.5	**2 834 914**	1 143 372
Loans receivable	3.3.1	**38 804**	32 801
Trade and other receivables	3.3.2	**3 060 510**	4 743 338
Advances to customers	3.3.3	**1 446 950**	1 119 827
Financial assets at fair value through profit or loss	3.5	**61 028**	14 008
Financial assets at fair value through other comprehensive income	3.7	**12 914**	11 688
Current tax assets		**18 946**	15 022
Cash and cash equivalents	3.3.4	**1 302 770**	2 723 591
Total assets		**14 718 310**	13 328 984
EQUITY AND LIABILITIES			
Capital and reserves		**4 439 543**	4 187 598
Issued share capital and premium		**7 521 248**	7 544 531
Other reserves	6.2	**(2 877 012)**	(2 871 437)
Retained earnings		**(316 341)**	(585 307)
Total ordinary shareholders' equity		**4 327 895**	4 087 787
Non-controlling interest		**111 648**	99 811
Non-current liabilities		**2 247 191**	783 878
Deferred taxation liabilities	7.2	**319 140**	299 909
Non-current lease liability	3.8	**23 462**	9 498
Financial liabilities at fair value through profit or loss	3.5	**61 824**	—
Borrowings	3.4.2	**1 842 765**	474 471
Current liabilities		**8 031 576**	8 357 508
Trade and other payables	3.4.1	**5 636 270**	6 069 027
Deferred revenue	4.6	**87 434**	113 367
Lease liability	3.8	**9 239**	37 384
Financial liabilities at fair value through profit or loss	3.5	**—**	22 200
Current tax liabilities		**68 275**	21 467
Borrowings	3.4.2	**2 230 355**	2 094 000
Bank overdraft	3.3.4	**3**	63
Total equity and liabilities		**14 718 310**	13 328 984

[1] In order to achieve enhanced disclosure, investments in associates and joint ventures have been disaggregated from loans to associates and joint ventures. The loans are not considered to be part of the net investment in the associates and joint ventures.

GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended 31 May 2023

	Notes	Issued share capital and premium R'000	Retained earnings R'000
Balance as at 1 June 2021		7 543 436	(1 612 386)
Profit for the year		—	1 027 079
Other comprehensive income		—	—
Total comprehensive income		—	1 027 079
Treasury shares purchased	6.1	(9 301)	—
Equity compensation benefit scheme shares vested	6.2	10 396	—
Equity compensation benefit movement	5.2, 6.2	—	—
Acquisition of non-controlling interest	6.2	—	—
Dividends paid		—	—
Balance as at 31 May 2022		**7 544 531**	**(585 307)**
Profit for the year		**—**	**268 966**
Other comprehensive loss		**—**	**—**
Total comprehensive income/(loss)		**—**	**268 966**
Treasury shares purchased	6.1	**(66 033)**	**—**
Equity compensation benefit scheme shares vested	6.2	**42 750**	**—**
Equity compensation benefit movement	5.2, 6.2	**—**	**—**
Acquisition of non-controlling interest	6.2	**—**	**—**
Dividends paid		**—**	**—**
Balance as at 31 May 2023		**7 521 248**	**(316 341)**

Other reserves R'000	Total ordinary shareholders' equity R'000	Non-controlling interest R'000	Total equity R'000
(2 732 783)	3 198 267	35 081	3 233 348
—	1 027 079	64 918	1 091 997
6 948	6 948	—	6 948
6 948	1 034 027	64 918	1 098 945
—	(9 301)	—	(9 301)
(9 954)	442	(442)	—
30 446	30 446	1 832	32 278
(166 094)	(166 094)	28 472	(137 622)
—	—	(30 050)	(30 050)
(2 871 437)	**4 087 787**	**99 811**	**4 187 598**
—	**268 966**	**19 207**	**288 173**
(2 554)	**(2 554)**	**—**	**(2 554)**
(2 554)	**266 412**	**19 207**	**285 619**
—	**(66 033)**	**—**	**(66 033)**
(41 423)	**1 327**	**(1 327)**	**—**
38 443	**38 443**	**1 569**	**40 012**
(41)	**(41)**	**(5 138)**	**(5 179)**
—	**—**	**(2 474)**	**(2 474)**
(2 877 012)	**4 327 895**	**111 648**	**4 439 543**

GROUP STATEMENT OF CASH FLOWS

for the year ended 31 May 2023

	Notes	2023 R'000	2022 R'000
Cash flows from operating activities			
Cash received from customers		**19 227 226**	16 698 666
Cash paid to suppliers, financiers and employees		**(19 024 350)**	(15 764 089)
Cash generated by operations	1.6	**202 876**	934 577
Interest received		**174 039**	80 993
Interest paid		**(663 908)**	(201 091)
Taxation paid		**(214 850)**	(165 710)
Net cash (utilised in)/generated from operating activities		**(501 843)**	648 769
Cash flows from investing activities			
Acquisition of intangible assets*		**(936 140)**	(1 013 334)
Proceeds on disposal of intangible assets		**4**	—
Acquisition of property, plant and equipment	4.3	**(119 167)**	(77 813)
Proceeds on disposal of property, plant and equipment		**7 847**	9 793
Acquisition of subsidiaries, net of cash acquired**		**(29 707)**	—
Additional investment in and acquisition of shares in associates	2.1.2	**(372 609)**	(15 340)
Contingent consideration received***		**—**	117 791
Loans advanced to associates and joint ventures		**(1 093 013)**	(26 565)
Loans repaid by associates and joint ventures		**194 681**	1 805
Dividend received from associate and joint venture	2.1.2	**—**	5 885
Loans receivable carried at fair value repaid	3.5	**13 540**	—
Loans granted		**(65 539)**	(40 774)
Loans receivable repaid		**38 252**	27 943
Net cash utilised in investing activities		**(2 361 851)**	(1 010 609)
Cash flows from financing activities			
Interest-bearing borrowings raised	3.4.2	**1 867 861**	1 627 141
Interest-bearing borrowings repaid	3.4.2	**(381 248)**	(870 502)
Non-interest-bearing borrowings repaid	3.4.2	**—**	(270)
Lease repayments	3.8	**(42 032)**	(37 857)
Issuance of class B Preference Shares	3.5	**66 859**	—
Acquisition of non-controlling interest	6.2	**—**	(11 000)
Acquisition of treasury shares****	6.1	**(66 033)**	(9 301)
Dividends paid to non-controlling interest		**(2 474)**	(30 050)
Net cash generated by financing activities		**1 442 933**	668 161
Net (decrease)/increase in cash and cash equivalents		**(1 420 761)**	306 321
Cash and cash equivalents at the beginning of the year		**2 723 528**	2 417 207
Cash and cash equivalents at the end of the year	3.3.4	**1 302 767**	2 723 528

* Acquisitions of intangible assets in the current period include significant cash outflows of R832 million (2022: R928 million) relating to the subscription income sharing arrangement that commenced during the 2021 financial year.

** The Group acquired 50% of Aligned Partnered Solutions Proprietary Limited's share capital on 31 March 2023 for a purchase consideration of R500. The Group further acquired 60% of Lipa Payments Proprietary Limited's share capital on 24 April 2023 for a purchase consideration of R30 million.

*** Prior year settlement of the contingent consideration relating to the disposal of the VAS operations in April 2020.

**** Approximately 10 million shares were repurchased over the period 25 August 2022 to 19 September 2022 at a weighted average price of R6.58 per share.

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.

1. RESULTS OF OPERATIONS continued

1.1 Segmental summary continued

The segment results for the year ended 31 May 2023 are as follows:

	Total		Africa Distribution	
	2023 R'000	2022 R'000	**2023 R'000**	2022 R'000
Continuing operations				
Total segment revenue	**24 958 278**	24 531 675	**24 470 272**	24 023 222
Internal revenue	**(6 040 015)**	(6 725 413)	**(5 826 462)**	(6 470 619)
Revenue	**18 918 263**	17 806 262	**18 643 810**	17 552 603
Segment result				
Operating profit/(loss) before depreciation, amortisation and the additional items listed below	**2 042 028**	1 963 009	**2 143 415**	2 023 935
Fair value gain on surety receivable	**32 743**	12 859	**—**	—
Fair value gain on put option	**22 000**	—	**—**	—
Fair value gain on other financial instruments	**14 533**	50 387	**14 533**	4 208
Expected credit loss on loans	**(69 571)**	(73)	**(69 028)**	602
Financial guarantee contracts	**—**	671	**—**	671
Bad debts and expected credit losses on trade receivables, other receivables and advances to customers	**(667 354)**	(328 359)	**(667 551)**	(328 572)
Loss on modification of financial instruments	**(57 453)**	—	**(57 453)**	—
Depreciation and amortisation	**(190 440)**	(174 045)	**(168 976)**	(153 205)
Operating profit/(loss)	**1 126 486**	1 524 449	**1 194 940**	1 547 639
Finance costs	**(682 599)**	(201 225)	**(681 193)**	(197 477)
Finance income	**411 540**	80 993	**407 731**	79 733
Reversal of impairment of investment in associate	**962 531**	—	**962 531**	—
Share of (losses)/profits from associates and joint ventures	**(1 329 747)**	8 042	**(1 320 348)**	1 678
Taxation	**(200 038)**	(320 262)	**(187 893)**	(313 621)
Profit/(loss) for the year	**288 173**	1 091 997	**375 768**	1 117 952
Profit/(loss) for the year attributable to:				
Equity holders of the parent	**268 966**	1 027 079	**360 771**	1 058 951
Non-controlling interest	**19 207**	64 918	**14 997**	59 001
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	**268 966**	1 027 079	**360 771**	1 058 951
Amortisation of intangibles raised through business combinations net of tax and non-controlling interest	**31 605**	32 169	**31 605**	32 169
Headline earnings adjustment	**101 390**	1 832	**101 026**	1 708
Core headline earnings for the year	**401 961**	1 061 080	**493 402**	1 092 828

The Company is domiciled in the Republic of South Africa. The revenue earned from external customers in South Africa is R18.9 billion (2022: R17.8 billion), and from external customers from other countries is R3.1 million (2022: R2.6 million).

The Africa Distribution segment includes revenue of R3.5 billion and R2.2 billion earned from two external customers.

At 31 May 2023, the Group is managed on the basis of four main business segments:

- Africa Distribution includes the distribution of prepaid airtime, starter packs and electricity of the South African network operators and utility suppliers, the distribution of ticketing and gaming vouchers as well as the distribution and financing of handsets, tablets and other devices within South Africa and certain African countries.
- International includes the investment in Oxigen Services India.
- Solutions 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 performs the head office administration function.

International		Solutions		Corporate	
2023 R'000	2022 R'000	**2023 R'000**	2022 R'000	**2023 R'000**	2022 R'000
—	—	**283 366**	254 571	**204 640**	253 882
—	—	**(8 913)**	(912)	**(204 640)**	(253 882)
—	—	**274 453**	253 659	**—**	—
(650)	(620)	**40 608**	27 494	**(141 345)**	(87 800)
32 743	12 859	**—**	—	**—**	—
—	—	**—**	—	**22 000**	—
—	—	**—**	—	**—**	46 179
(98)	(471)	**(445)**	(204)	**—**	—
—	—	**—**	—	**—**	—
—	—	**196**	213	**1**	—
—	—	**—**	—	**—**	—
—	—	**(655)**	(628)	**(20 809)**	(20 212)
31 995	11 768	**39 704**	26 875	**(140 153)**	(61 833)
—	—	**(79)**	(236)	**(1 327)**	(3 512)
1	—	**3 317**	1 108	**491**	152
—	—	**—**	—	**—**	—
—	—	**(9 399)**	6 364	**—**	—
(7 892)	(2 119)	**(4 398)**	865	**145**	(5 387)
24 104	9 649	**29 145**	34 976	**(140 844)**	(70 580)
24 104	9 649	**24 935**	29 059	**(140 844)**	(70 580)
—	—	**4 210**	5 917	**—**	—
24 104	9 649	**24 935**	29 059	**(140 844)**	(70 580)
—	—	**—**	—	**—**	—
—	—	**305**	428	**59**	(304)
24 104	9 649	**25 240**	29 487	**(140 785)**	(70 884)

Core headline earnings

Core headline earnings is a non-IFRS measure 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 1/2023.

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

1. RESULTS OF OPERATIONS continued

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.

Measurement and terms of sale

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.

Critical estimates and judgements

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.

1. RESULTS OF OPERATIONS continued

1.2 Revenue continued

Revenue source	Performance obligations included	Recognition
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.
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.

Measurement and terms of sale	Critical estimates and judgements
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.
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.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

CONTINUED

for the year ended 31 May 2023

1. RESULTS OF OPERATIONS continued

1.2 Revenue continued

Revenue source	Performance obligations included	Recognition
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.
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, the sale of gaming vouchers, the sale of tickets for transportation and to sporting events, and the facilitation of bill payments.	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
Revenue earned on transaction 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 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. Revenue is measured at the consideration received in terms of the arrangement with the customer. Handsets are generally sold on extended credit terms of between 24 and 36 months, whereby the revenue recognised is reduced by a financing component, which is subsequently recognised over the projected term at the effective interest rate. Payment terms for other goods are generally between 30 and 60 days. Subsidies on handset sales are considered an incremental cost of obtaining a contract with a customer that is expected to be recovered and as such are recognised as an asset within advances to customers (refer to note 3.3.3) and amortised over the period of the contract.	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. Effective from June 2022, a change in the contractual arrangement between the Group and Cell C has resulted in the Group taking over the stock risk for post paid contract devices and control over the devices until ultimate sale to subscribers. Consequently these subscribers are considered customers of the Group for post paid device sales and the related consideration received, net of discounts, is recorded within this category.
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 2023

1. RESULTS OF OPERATIONS continued

1.2 Revenue continued

Revenue source	Performance obligations included	Recognition
Subscription income share	This category represents the Group's share of Cell C's income, under the subscription income sharing arrangement (refer to note 4.2(e)), from particular postpaid subscribers that sign up, extend or upgrade their subscriptions with Cell C after 1 November 2020. To the extent the Group has facilitated the procurement of handsets to enable Cell C to fulfil its obligation of providing such handsets to their customers, rather than to the customers of the Group, the handset sales associated with this arrangement are also represented within this category.	The Group's share of subscription income is recognised as revenue as and when Cell C earns the income from the particular postpaid subscribers.
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.

Measurement and terms of sale	Critical estimates and judgements
The Group's share of subscription income is recognised as revenue based on the net cash flows which the Group is entitled to from Cell C that relate to the particular postpaid subscribers. The net cash flows are determined after deducting the operating costs of Cell C, borne by the Group, that are associated with these subscribers, as and when they are incurred by Cell C. To the extent the Group has facilitated the procurement of handsets to enable Cell C to fulfil its obligation of providing such handsets to these subscribers, the Group's costs are also deducted in measuring the Group's share of subscription income and handset revenue. Subsidies on handset sales are considered an incremental cost of obtaining a contract with a customer that is expected to be recovered and as such are recognised as an asset within advances to customers (refer to note 3.3.3) and amortised over the period of the contract.	Since it is Cell C that transfers goods or services to the subscribers, and not the Group, the subscribers are not considered to be customers of the Group. Similarly, Cell C is not a customer of the Group as the Group does not transfer goods or services to Cell C. Accordingly, the Group's share of subscription income does not constitute revenue from contracts with customers as defined in IFRS 15 – *Revenue from Contracts with Customers*. It is considered to be income arising in the course of the Group's ordinary activities, and is therefore presented as revenue. Effective from June 2022, a change in the contractual arrangement between the Group and Cell C has resulted in the Group taking over the stock risk and control over post paid contract devices until ultimate sale to subscribers. Consequently these subscribers are considered customers of the Group for post paid device sales and the related consideration received net of costs are no longer recognised within this category.
Finance revenue is measured at the effective interest rate implicit in the financing arrangement.	No significant judgements or estimates.

1. RESULTS OF OPERATIONS continued

1.2 Revenue continued

	Total		Africa Distribution		Solutions	
	2023 R'000	2022 R'000	**2023 R'000**	2022 R'000	**2023 R'000**	2022 R'000
Revenue from contracts with customers	**17 654 965**	16 552 919	**17 380 512**	16 299 260	**274 453**	253 659
Prepaid airtime, data and related revenue	**13 009 793**	14 556 809	**13 009 793**	14 556 809	**—**	—
Postpaid airtime, data and related revenue	**155 568**	106 285	**155 568**	106 285	**—**	—
Prepaid and postpaid SIM cards	**460 280**	504 111	**460 280**	504 111	**—**	—
Services	**441 683**	394 253	**167 230**	140 594	**274 453**	253 659
Electricity commission	**282 903**	336 197	**282 903**	336 197	**—**	—
Handsets, tablets and other devices	**2 770 279**	274 447	**2 770 279**	274 447	**—**	—
Other revenue*	**534 459**	380 817	**534 459**	380 817	**—**	—
Subscription income share	**940 940**	842 362	**940 940**	842 362	**—**	—
Revenue	**18 595 905**	17 395 281	**18 321 452**	17 141 622	**274 453**	253 659
Finance revenue	**322 358**	410 981	**322 358**	410 981	**—**	—
Total revenue	**18 918 263**	17 806 262	**18 643 810**	17 552 603	**274 453**	253 659

* Other revenue predominantly includes audit projects on municipalities and commissions earned on the sale of gaming vouchers, bus ticketing and the facilitation of bill payments.

1.3 Operating profit

	2023 R'000	2022 R'000
The following has been charged/(credited) in arriving at operating profit:		
Advertising and promotional expenses	**52 159**	57 968
Audit fees – services as auditors relating to the year-end audit	**27 498**	27 889
Audit fees – other	**7 524**	2 414
Consulting fees	**79 424**	92 839
Foreign exchange loss	**1 676**	1 217
Impairment of inventory	**8 495**	4 205
Insurance	**15 095**	11 315
IT infrastructure costs and computer-related costs	**57 582**	55 737
Legal fees	**3 594**	9 283
Licence fees	**66 419**	49 196
Motor vehicle expenses	**23 541**	19 548
Profit on disposal of property, plant and equipment	**(1 919)**	(1 383)
Travel – local and overseas	**68 310**	7 638
Staff training	**9 770**	13 030
Receipt of contingent consideration	**—**	(45 823)
Professional fees and other costs related to the fraud recoupment	**—**	67 933
Fraud recoupment	**—**	(315 132)

	2023 R'000	2022 R'000
Fair value movements comprise the following:		
Fair value gain on surety receivable	**(32 743)**	(12 859)
Fair value gain on put option	**(22 000)**	(46 179)
Fair value gain on financial instruments	**(14 533)**	(4 208)
	(69 276)	(63 246)
Bad debts and expected credit loss, arising from the application of IFRS 9, comprise the following:		
Bad debts and expected credit loss on loans	**69 480**	(398)
Expected credit loss on 2DFine and OSI loans	**98**	471
Remeasurement of financial guarantee contracts	**—**	(671)
Bad debts and expected credit losses on trade receivables, other receivables and advances to customers	**667 347**	328 359
	736 925	327 761
Loss on modification of financial instruments		
Loss on modification of financial asset – Deferral Loan[1]	**64 500**	—
Gain on modification of financial liability – Class A Preference Shares[2]	**(7 047)**	—
	57 453	—

[1] For details regarding the modification of the Deferral Loan refer to note 2.1.2.
[2] For details regarding the modification of the Class A Preference Shares refer to note 3.4.2.

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 in profit or loss. In all other scenarios, interest is recognised as a finance income or finance expense below operating profit.

	2023 R'000	2022 R'000
Finance costs		
– Bank	**243**	183
– Loans and facilities	**664 179**	186 857
– Related party loans (refer to note 8)	**—**	3
– Other	**14 362**	8 323
– Unwinding of lease liability	**3 815**	5 859
	682 599	201 225
Finance income		
– Bank	**(76 401)**	(70 392)
– Loans	**(2 132)**	(822)
– Related party loans (refer to note 8)	**(323 993)**	(4 745)
– Other	**(9 014)**	(5 034)
	(411 540)	(80 993)

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*.

Use of adjusted measures

The measures listed below are presented as management believes it to be relevant to the understanding of the Group's financial performance. These measures are used for internal performance analysis and provide additional useful information on underlying trends to equity holders. These measures are not defined terms under IFRS and may therefore not be comparable with similarly titled measures reported by other entities. It is not intended to be a substitute for, or superior to, measures as required by IFRS.

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

	Attributable earnings		Cents per share	
	2023 R'000	2022 R'000	**2023**	2022
Headline earnings per share				
Basic	**370 356**	1 028 911	**41.97**	117.34
Diluted	**370 356**	1 028 911	**41.41**	114.34
Core	**401 961**	1 061 080	**45.55**	121.01
Earnings attributable to ordinary equity holders				
Basic	**268 966**	1 027 079	**30.48**	117.13
Diluted	**268 966**	1 027 079	**30.07**	114.14

(b) Weighted average number of shares

Weighted average number of shares	2023 '000	2022 '000
Weighted average number of ordinary shares	**882 530**	876 857
Adjusted for forfeitable shares	**11 835**	23 006
Weighted average number of ordinary shares for diluted earnings[1]	**894 365**	899 863

[1] The same weighted average number of shares for basic earnings per share is used for core headline earnings per share.

(c) Analysis of headline earnings

	Profit/(loss) before tax and non-controlling interest R'000	Tax R'000	Non-controlling interest R'000	Headline earnings R'000
2023				
Profit attributable to equity holders of the parent	**488 211**	**(200 038)**	**(19 207)**	**268 966**
Net profit on disposal of property, plant and equipment	**(1 919)**	**518**	**27**	**(1 374)**
Impairment of property, plant and equipment	**12 145**	**(3 280)**	**—**	**8 865**
Reversal of impairment of investment in associate	**(962 531)**	**—**	**—**	**(962 531)**
Net loss on disposal of property, plant and equipment in associate/joint venture	**6 403**	**—**	**—**	**6 403**
Impairment of property, plant and equipment in associate	**330 129**	**—**	**—**	**330 129**
Impairment of intangible assets in associate	**516 009**	**—**	**—**	**516 009**
Impairment of leased assets in associate	**203 889**	**—**	**—**	**203 889**
Headline earnings				**370 356**
2022				
Profit attributable to equity holders of the parent	1 412 259	(320 262)	(64 918)	1 027 079
Profit on disposal of property, plant and equipment	(1 383)	387	27	(969)
Profit on disposal of property, plant and equipment in joint venture	(32)	—	—	(32)
Impairment of property, plant and equipment	3 580	(1 003)	—	2 577
Remeasurement of non-current assets held-for-sale	157	(44)	(29)	84
Profit on disposal of intangible assets in joint venture	(270)	—	—	(270)
Dilution of holding in joint venture	545	—	(103)	442
Headline earnings				1 028 911

(d) Analysis of core headline earnings

	2023 R'000	2022 R'000
Reconciliation between net profit for the period and core headline earnings for the year:		
Net profit for the year	**268 966**	1 027 079
Amortisation of intangibles raised through business combinations net of tax and non-controlling interest	**31 605**	32 169
Core net profit for the year	**300 571**	1 059 248
Headline earnings adjustments	**101 390**	1 832
Core headline earnings	**401 961**	1 061 080

1. RESULTS OF OPERATIONS continued

1.6 Cash generated by operations

	2023 R'000	2022 R'000
Reconciliation of operating profit to cash generated by operations:		
Operating profit	**1 126 486**	1 524 449
Adjustments for:		
Depreciation of property, plant and equipment	**72 464**	64 703
Depreciation on leased assets	**30 793**	29 341
Amortisation of intangible assets	**446 300**	338 115
Fair value gain on financial instruments	**(47 497)**	(47 383)
Fair value loss on financial instruments	**11 050**	—
Fair value gain on contingent consideration	**—**	(45 823)
Impairment of property, plant and equipment	**12 145**	3 580
Impairment of loans	**69 578**	73
Impairment of inventory	**8 495**	4 205
Loan forgiveness	**(2 778)**	—
Brokerage income fee capitalised	**—**	(2 347)
Fraud recoupment of assets still to be collected	**—**	(113 141)
Fair value gain on surety receivable	**(32 743)**	(12 859)
Lease modification income	**(86)**	(1 106)
Lease incentive received	**5 018**	—
Loss on modification of financial instrument	**57 453**	—
Loss on dilution of joint venture	**—**	545
Profit on disposal of property, plant and equipment	**(1 919)**	(1 383)
Financial guarantee release	**—**	(671)
Equity compensation benefit expense	**40 012**	32 278
Net unrealised forex profit	**(200)**	(364)
Changes in working capital:		
Increase in inventories	**(1 695 313)**	(181 183)
Decrease/(increase) in trade and other receivables	**655 641**	(846 727)
Increase in trade and other payables	**37 640**	45 525
(Increase)/decrease in advances to customers	**(589 663)**	144 750
	202 876	934 577

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) Classification of significant joint arrangements

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

(c) Assessment of investment in associates and joint ventures for impairment

The Group tests annually whether its 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.

2.1 Investments in and loans to associates and joint ventures

2.1.1 Investments in and loans to Cell C Limited

On 2 August 2017, Blue Label, through its wholly owned subsidiary, TPC, acquired 45% of the issued share capital of Cell C for a purchase consideration of R5.5 billion. On recapitalisation, BLT, through its subsidiary, TPC, holds 49.53% participatory interest in its associate.

(d) Classification of significant associates

Assessment of control over Cell C

BLT holds 49.53% of the shareholder voting rights of Cell C and is able to appoint four out of 12 on the Cell C Board of Directors, where each director has one vote. It has been determined that the Cell C Board makes the decisions about the activities that significantly affect the returns of Cell C (the relevant activities).

As a result of loans made by TPC to SPV1 and SPV4, TPC is entitled to obtain additional shares comprising 13.66% in aggregate in Cell C at any time from the SPVs in settlement of the loans. Should TPC wish to obtain any of these additional shares, and hence the corresponding voting rights, the Group's external legal advisers have advised that it can only do so lawfully with the prior approvals of the Competition Commission and ICASA – as acquiring additional voting rights would result in TPC obtaining control over Cell C. According to the Group's external legal advisers, it is unlawful to give effect to a transaction that requires the approval of the Competition Commission before such approval is granted, and doing so could result in the transaction being set aside. Furthermore, the granting of the regulatory approvals is not a formality or within TPC's control, hence TPC does not, on its own, have the practical ability to obtain any additional shares (and voting rights). Therefore, management has concluded that TPC's rights under the loan agreements to obtain additional Cell C shares are not substantive until such approvals have been granted. Consequently, the potential voting rights of 13.66% have been excluded from the assessment of whether the Group has control over Cell C.

SPV1 and SPV4 hold the voting rights attached to the aggregate 13.66% equity interest. Even though TPC bears the economic risks and rewards of these shares (subject to upper limits of the amounts repayable under the loans), it does not have the ability to direct the way in which the corresponding voting rights in Cell C are exercised. These decisions lie with the Directors of SPV1 and SPV4, which are appointed by Albanta Trading 109 Proprietary Limited (Albanta), over which BLT has no control.

Although the SPVs will only benefit from the aggregate 13.66% equity interest in Cell C to the extent that they realise more than the amounts repayable to TPC under the loans, whether they exercise their Cell C voting rights in line with the way that TPC exercises its 49.53% Cell C voting rights or not, management is of the view that this would not affect the SPVs in any way. Similarly, whether the SPVs vote in line with TPC or not, management is of the view that this would have no impact on whether TPC elects to obtain the additional shares in settlement of its loans, subject to receiving the requisite regulatory approvals. Since management is of the view that the SPVs do not have any incentive to exercise their Cell C voting rights in the way that TPC would want them to such that TPC can rely on them to do so, it has been concluded that the SPVs are not de facto agents of TPC. Furthermore, Albanta holds other shares (5.50%) in Cell C, therefore management believes that Albanta would exercise all its Cell C voting rights in the same way and management is of the view that there is no incentive or reason why Albanta would necessarily vote in line with TPC.

Based on historical attendance at Cell C shareholder meetings, the fact that the shares of Cell C are not widely held (there are only nine shareholders currently; six if one recognises that SPV1, SPV4 and SPV5 are all subsidiaries of Albanta), and that Gramercy and Nedbank now hold 7.53% and 6.09% of Cell C, respectively, management is of the view that there is currently no basis for concluding that TPC has de facto control of Cell C at a shareholder level. Furthermore, it is the Memorandum of Incorporation (MOI) of Cell C that enables TPC to appoint only four of the 12 Directors, and changes to the MOI require shareholder approval of at least 82% including that of Gramercy and Nedbank, for as long as they are permitted to appoint a Director to the Cell C Board. Therefore, even if TPC had de facto control at a shareholder level, it could not, on its own, change the MOI to enable it to appoint the majority of the Directors. Management has thus concluded that the Group does not have control over Cell C and continues to exercise significant influence. Therefore, the Group continues to account for Cell C as an associate.

2. GROUP COMPOSITION continued

2.1 Investments in and loans to associates and joint ventures continued

2.1.1 Investments in and loans to Cell C Limited continued

Critical accounting judgements and assumptions continued

(e) 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 with MTN 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 has positively impacted the cost base and anticipated future cash flows.

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.

A roaming agreement with Vodacom was concluded in November 2020 which is aligned to Cell C's revised network strategy, aimed at managing capacity in a more scalable and cost-efficient manner through a roaming model. Contract and broadband customers have been transitioned in stages to roam on the Vodacom network. The strategic vision is to differentiate Cell C by focusing on innovative products and services without being owners of capital intensive infrastructure. This creates more flexibility and capacity to deliver the right quality of service to our current and future customers.

Cell C embarked on a strategy to reconsider its current service offering, whereby Cell C identified the need to either wind down or restructure the service offering being provided to its postpaid mobile telecommunication business (the base). During the 2021 financial year, the Group, through its subsidiary CEC, entered into an arrangement with Cell C to facilitate Cell C's operation of the base. The agreement commenced on 1 November 2020 for an initial period of five years, with CEC having the right to renew for a further four years. CEC is entitled to receive a share of the subscription income generated by Cell C from a subset of postpaid subscribers that sign up, extend or upgrade their subscriptions with Cell C after 1 November 2020 (New and Upgrade subscribers) plus certain fixed and variable payments. Cell C will remain entitled to the subscription income of existing subscribers at 31 October 2020 for the remainder of the subscribers' contract and a share of the ongoing revenue of New and Upgrade subscribers. The aim of the reorganisation would be for the base to remain intact and grow in the future, and for Cell C to have limited downside risk on the base.

Cell C has implemented a turnaround strategy, focusing on operational efficiencies, reducing operational expenditure and optimising traffic. This includes a significant reduction in capital expenditure and a conversion of a fixed cost infrastructure-based network to a variable operational expenditure model. This, together with the recapitalisation of the current debt structure (refer below for further information in this regard), will result in a significant improvement of its liquidity and ensure the long-term sustainability of Cell C.

Overview of the Cell C Recapitalisation Transaction

On 26 August 2021, TPC concluded a term sheet for an Airtime Purchase transaction with Investec Bank Limited, FirstRand Bank Limited (acting through its Rand Merchant Bank division) and other financiers, the proceeds of which were intended to be utilised for the recapitalisation of Cell C. This arrangement was subject to the conclusion of all legal documentation and fulfilment of all conditions precedent under such legal documentation, which occurred at the end of September 2022. On 15 March 2022, Blue Label concluded a non-binding term sheet (Umbrella Restructure Term Sheet) with Cell C and various Cell C financial stakeholders (including certain shareholders and creditors of Cell C). In terms of the Umbrella Restructure Term Sheet, Cell C was to be restructured and refinanced (the Recapitalisation Transaction) with the purpose of deleveraging its balance sheet, providing it with liquidity with which to operate and grow its businesses and to position itself to achieve long-term success for the benefit of its customers, employees, creditors, shareholders and its other stakeholders. The Umbrella Restructure Term Sheet was non-binding, save for stand-still provisions and certain provisions of a general nature which were binding. The binding long-term agreements and the recapitalisation process, the completion of which endured for longer than initially anticipated, was effective and closed end September 2022.

The salient terms of the Recapitalisation Transaction are set out below:

Capital and debt restructure
In order to facilitate the restructuring of Cell C's debt owing to certain secured lenders totalling R7.3 billion, with such amount being fixed as at November 2019, TPC loaned to Cell C an amount required to affect a compromise offer made by Cell C to certain of its secured lenders of a maximum amount of up to R1.46 billion (TPC Debt Funding). TPC's actual funding obligation in respect of the compromise offer, however, amounted to R1.03 billion. The TPC Debt Funding was provided by TPC to Cell C in the form of a secured loan. Cell C utilised the TPC Debt Funding to settle the claims of secured lenders by paying an amount of 20c to the rand.

Certain secured lenders indicated that they wish to remain invested in Cell C. These secured lenders were entitled to loan an amount equal to the 20c received, back to Cell C under a new loan arrangement (Reinvestment Instrument). The Reinvestment Instrument, which is interest bearing and secured, has an aggregate capital face value equal to 2.75 times of the amount advanced. In addition, the participating lenders were entitled to share pro rata in a fresh issue of ordinary shares in Cell C at a nominal value. All shareholders of Cell C diluted proportionately to enable the issuance of these ordinary shares to the participating lenders.

Simultaneously but separately with the issuance of the Reinvestment Instrument, Cell C, pursuant to a rights issue at nominal value, allotted and issued shares to TPC. Following such issue and various other issues of shares to be made by Cell C to third parties at nominal value pursuant to the Proposed Transaction, TPC holds 49.53% of the shares in Cell C, inclusive of those shares which TPC were entitled to, pursuant to the Reinvestment Instrument.

In addition, CEC (a wholly owned subsidiary of TPC) deferred an amount of R1.1 billion owed by Cell C and some of its subsidiaries to it on the date of implementation of the Recapitalisation Transaction, which amount will be repaid in equal monthly instalments over 60 months. At year-end, Cell C has met its payment obligations.

Liquidity requirements
In order to further assist Cell C with its working capital requirements, TPC has:
- purchased Cell C prepaid airtime for a purchase price of R1.2 billion (including VAT) on the Effective Date of the Recapitalisation Transaction; and
- will purchase, by way of four further quarterly payments of R300 million (including VAT), additional prepaid airtime, with each such quarterly payment payable at the beginning of each calendar quarter. The first such quarterly payment will be made at the beginning of the 13th month following the recapitalisation of Cell C and subsequent payments will be made at the commencement of each quarter thereafter.

Furthermore, TPC undertook to purchase certain minimum levels of prepaid airtime from Cell C in accordance with an agreed monthly schedule or otherwise in accordance with market requirements.

The prepaid airtime to be acquired by TPC from Cell C pursuant to the above prepaid airtime transactions, forms part of the average monthly prepaid airtime acquisitions by TPC of Cell C prepaid airtime in the ordinary course of business.

2. GROUP COMPOSITION continued

2.1 Investments in and loans to associates and joint ventures continued

2.1.1 Investments in and loans to Cell C Limited continued

Overview of the Cell C Recapitalisation Transaction continued

Other inter-related transactions

In addition to the conclusion of the Recapitalisation Transaction, the following transactions were concluded. Under these further agreements TPC:

- acquired from certain funders to Cell C their right to reinvest in the Reinvestment Instrument for a purchase consideration of R1 from each such funder. Following such acquisition by TPC of such rights, TPC invested an aggregate amount of R111 million into Cell C via the Reinvestment Instrument;
- acquired debt notes in Cedar Cellular Investment 1 (RF) Proprietary Limited (SPV1), a shareholder in Cell C, for a purchase consideration of USD500 000 plus R16 million;
- acquired a credit claim of USD6 million against Cell C for an amount of USD4 million. This claim was subject to a compromise as between TPC and Cell C;
- acquired certain trade claims against Cell C, which claims were acquired for an aggregate amount of R12 million plus USD2.2 million and were then subject to a compromise as between TPC and Cell C;
- advanced an amount of R223 million to K2021889191 (South Africa) Proprietary Limited (SPV4), which amount SPV4 utilised to acquire from the joint liquidators of Magnolia Cellular Investments 2 (RF) Proprietary Limited (in liquidation) (SPV2), shares in Cell C owned by SPV2, such shares being 5.47% of the shares in Cell C post-recapitalisation. SPV2 used the proceeds of the aforesaid sale to compromise and settle all unsubordinated claims which lenders had against it;
- disposed of such shares in Cell C as equates to 5% post-recapitalisation equity in Cell C to SPV4 on loan account for R204 million. The loan to SPV4 is secured by the shares in Cell C held by SPV4;
- will loan an aggregate amount of R275 million to K2022559963 (South Africa) Proprietary Limited (SPV5) between 2024 and 2026, in return for a claim of R699 million. SPV5 will apply the loaned amount of R275 million to settle, in full, the above third-party claim on behalf of Cell C. In return for SPV5 undertaking such obligations on behalf of Cell C, it allotted and issued 10% of its share capital to SPV5. Such shares were provided by SPV5 to TPC as security for the above loan. Following the settlement of the claim of R699 million to TPC, TPC has a right to share in 50% of any economic benefit generated by SPV5 in excess of the aforementioned R699 million.

TPC airtime purchase transactions and working capital facility

TPC entered into agreements with Investec Bank Limited (acting through its Investment Banking Division: Corporate Solutions), FirstRand Bank Limited (acting through its Rand Merchant Bank division) and another financier (lenders):

- pursuant to which TPC sold Cell C prepaid airtime, with a face value of R2.115 billion, to the lenders for a purchase consideration of R1.692 billion (including VAT). TPC has a repurchase obligation in respect of this airtime, payable in 48 equal bi-monthly instalments;
- to amend the terms of its working capital facility (Facility A) that existed at the time. The working capital facility has been increased from R1.125 billion to R1.4 billion (facility A, facility B and general banking facility) and will be settled in two tranches. Facilities A and B will be amortised at R20 million per month collectively from months 13 to 24 with the balance and the general banking facility being settled as a bullet at the end of 24 months; and
- whereby TPC issued to the lenders, two classes of preference shares for a nominal consideration. The first class of preference share affords the holders of such preference shares a right to 15% of the upside realised by TPC on the TPC Debt Funding (Preference Share A) and the second class the right to all amounts (dividends and sale proceeds) received by TPC from 5% of its shareholding in Cell C (Preference Share B).

Additionally, TPC sold to a third-party Cell C prepaid airtime for a purchase consideration of R250 million (including VAT). TPC has a repurchase obligation in respect of this airtime, payable in 18 equal monthly instalments. At year-end R156 million has been repurchased.

Accounting implications of the Cell C Recapitalisation Transaction

TPC borrowings – from lenders

The bank borrowings of R1.471 billion were structured as:

i) an airtime sale and repurchase,
ii) the issue of Class A Preference Shares, and
iii) the issue of Class B Preference Shares.

i. Airtime sale and repurchase

Refer to note 3.4.2

TPC sold Cell C airtime vouchers with an aggregate face value of R2.115 billion (including VAT) for cash of R1.692 billion (including VAT) (R1.471 billion, excl. VAT) to the lenders. TPC will repurchase the airtime vouchers in 48 semi-monthly tranches from October 2022 to September 2024. After the first repurchase payment of R44.8 million (including VAT), the semi-monthly repurchase payments are R40.4 million (including VAT). This represents an implicit interest rate of 13.6%. At year-end, TPC has repurchased stock with an aggregate face value of R705 million (including VAT).

ii. Issue of Class A Preference Shares

Refer to note 3.4.2

TPC issued Class A Preference Shares to the lenders for a nominal issue price. The shares are redeemable at the issue price, carry a mandatory preference dividend, and have no other participation rights. The preference dividend is indexed to 15% of the 'upside' realised by TPC on the loan to Cell C (refer to "Loans to Cell C"). TPC has no obligation to pay any preference dividend unless the equivalent amount is received from Cell C.

iii. Issue of Class B Preference Shares

Refer to note 3.5

TPC issued Class B Preference Shares to the lenders for a nominal issue price. The shares are redeemable at the issue price, carry a mandatory preference dividend, and have no other participation rights. The preference dividend is indexed to 10.01% of TPC's shareholding in Cell C immediately after the Cell C recapitalisation, which is equivalent to a 5% shareholding in Cell C. TPC has no obligation to pay any preference dividend unless the equivalent amount is received from Cell C or from an exit event.

TPC borrowings – from other third parties

Refer to note 3.4.2

The borrowings were structured as an airtime sale and repurchase.

iv. Airtime sale and repurchase

TPC sold Cell C airtime vouchers with an aggregate face value of R315 million (including VAT) for cash of R250 million (including VAT) (R217 million, excluding VAT) to the third party. TPC will repurchase the airtime vouchers in 18 equal monthly tranches of R16.89 million (including VAT) from October 2022 to March 2024. This represents an implicit interest rate of 25.75%. At year-end, TPC has repurchased stock with an aggregate face value of R144.4 million (including VAT).

Loans to Cell C

Refer to note 2.1.2

TPC provided funding to Cell C in the form of two loans.

I. Debt Funding

TPC advanced R1.03 billion to Cell C. The total capital amount to be repaid is R2.8 billion. The difference between the two, as well as any interest on this difference, is the 'upside' to which the mandatory preference dividends on the Class A Preference Shares are indexed (refer to "Issue of Class A Preference Shares").

The amount advanced is to be repaid by Cell C at the end of the 42nd month after the recapitalisation date, and the balance of the total capital amount at the end of the 66th month.

The loan bears no interest for the first 24 months. Thereafter the total capital amount bears interest at a fixed rate of 10% per annum until month 42, and thereafter the outstanding amount bears interest at prime plus 3% until month 66, payable monthly.

II. Reinvestment Instrument

TPC invested an aggregate amount of R111 million into Cell C via the Reinvestment Instrument. The total capital amount to be repaid is R306 million.

The total capital amount is to be repaid by Cell C at the end of the 42nd month after the recapitalisation date.

The loan bears no interest for the first 24 months after the recapitalisation date and thereafter the total capital amount bears interest at a fixed rate of 10% per annum. Interest payments are payable monthly.

2. GROUP COMPOSITION continued

2.1 Investments in and loans to associates and joint ventures continued

2.1.1 Investments in and loans to Cell C Limited continued

Accounting implications of the Cell C Recapitalisation Transaction continued

Loan to SPV4

Refer to note 2.1.2

TPC advanced R223 million to SPV4, which SPV4 used to acquire a 5.47% shareholding in Cell C from SPV2. SPV2 used the proceeds to repay certain of its debts after which it was liquidated. The loan is interest-free and is repayable on demand. The only asset securing this loan is the 5.47% shareholding in Cell C which TPC can acquire in settlement of its loan. If TPC elected to acquire these additional shares, it would first require the prior approval of the Competition Commission of South Africa and ICASA as such acquisition would result in TPC acquiring control of Cell C.

Sale of a 5% shareholding in Cell C to SPV4 on loan account

Prior to the effective date of the recapitalisation, TPC sold a 5% shareholding (in terms of post-recapitalisation shareholding) in Cell C to SPV4 thereby divesting itself of the ability to direct the voting rights attached to these shares. The shares were sold on loan account for R204 million which is repayable on demand on an interest-free basis. The only security for this loan is the 5% shareholding in Cell C which TPC can acquire in settlement of its loan. SPV4 is required to pay to TPC all payments it receives or realises on this 5% shareholding in Cell C towards settlement of the loan. In this way TPC retains the economic interest in this 5% shareholding in Cell C. If TPC elected to acquire these additional shares, it would first require the prior approval of the Competition Commission of South Africa and ICASA as such acquisition would result in TPC acquiring control of Cell C.

Although TPC has not retained the voting rights attached to this 5% shareholding in Cell C, it has retained substantially all the risks and rewards of ownership. TPC continues to recognise the economic interest of this shareholding as part of the investment in associate and to equity account it. Accordingly, the overall percentage interest in Cell C that is equity accounted reflects TPC's economic interest (and not only voting interest) which includes this economic interest of 5%. The loan does not meet criteria to be classified as a financial asset at amortised cost as it represents an additional interest (without voting rights) in these shares. Since Cell C is accounted for as an associate, TPC's additional interest in Cell C has also been accounted for as part of the investment in associate and equity accounted.

The assessment of control is concerned with substantive rights as it relates to decisions about the direction of the relevant activities of the investee, and therefore, it is management's view that the additional interest without the additional right to vote, together with the operational barriers which prevent the Group from exercising its rights, will not change its assessment of whether Cell C is an associate, until such rights become substantive.

Shareholding in Cell C

TPC received additional shares from Cell C for a nominal amount.

Following the recapitalisation of Cell C, TPC has a shareholding and voting rights of 49.53% in Cell C, as well as additional interests of 13.66%, derived as follows:

	Percentage
Pre-recapitalisation shareholding	45.00
Sale of shares (SPV4)	(5.00)
Net new issue	9.53
Dilution	(29.61)
New issue	39.14
Post-recapitalisation shareholding	49.53
Post-recapitalisation shareholding without voting rights	13.66
SPV1	3.19
SPV4 – Loan to SPV4	5.47
SPV4 – Sale of a 5% shareholding in Cell C to SPV4 on loan account	5.00
Total economic interest	63.19

Percentage of Cell C equity accounted
Up until 22 September 2022, the Group had a 45% shareholding in Cell C which was held via TPC, and which represented the percentage interest in Cell C that was equity accounted up to that date. Post the Cell C recapitalisation, Cell C continues to be an associate of the Group with 49.53% participatory (with voting rights) shareholding therein. When applying the equity method to investments in associates, the carrying amount is increased or decreased to recognise the investor's share of the associate's profit or loss since the date of acquisition. An investor's interest in an associate is determined solely on the basis of existing ownership interests and does not reflect the possible exercise or conversion of potential voting rights or other derivatives, unless they currently give the investor access to returns associated with an ownership interest. As a result of its transactions with SPV1 and SPV4, in substance, TPC has additional interests of 13.66% (subject to certain caps, being the amounts to be repaid by the SPVs in respect of the loans from TPC) in the equity of Cell C (but without the corresponding voting rights). The caps have not become effective as yet. Therefore, since the date of the recapitalisation the Group has equity accounted 63.19% of the earnings of Cell C.

Purchase of certain trade claims against Cell C
TPC acquired several trade claims held by two parties against Cell C.

Claims of one of the parties were acquired for cash payments totalling USD4 million (R65 million). These claims were settled in full by Cell C by providing TPC with airtime vouchers with an aggregate face value of R75.8 million (including VAT).

Claims of the other party of R153 million were acquired for cash payments totalling R53 million. TPC agreed to a compromise with Cell C which reduced the amount owing by Cell C by 45%, down to R84 million. The balance is to be repaid by Cell C on an interest-free basis from the 25th month after the date of recapitalisation. On a quarterly basis from this date TPC is entitled to receive as settlement 11% of any excess cash held by Cell C above an amount of R700 million until the debt is repaid. Refer to note 3.3.2.

Deferred repayment terms of an amount of R1.1 billion owing by Cell C to CEC
Refer to note 2.1.2

An existing claim of R1.1 billion by CEC against Cell C will be repaid by Cell C in 60 equal monthly instalments, plus interest on the outstanding amount at a fixed rate of 12% per annum. At year-end, Cell C has met its payment obligations.

Bulk airtime purchases from Cell C
TPC purchased airtime vouchers from Cell C with a face value of R1.992 billion (including VAT) for a cash payment of R1.2 billion (including VAT).

TPC will purchase, by way of four further quarterly payments of R300 million (including VAT), with a face value of R498 million (including VAT), additional prepaid airtime, with each such quarterly payment payable at the beginning of each calendar quarter. The first such quarterly payment will be made at the beginning of the 13th month following the recapitalisation of Cell C and subsequent payments will be made at the commencement of each quarter thereafter.

In addition, TPC is required to make minimum monthly purchases of airtime vouchers from Cell C for a period of 24 months from the date of the Cell C recapitalisation. For each of the first 12 months, the minimum purchase is airtime with a face value of R427 million (including VAT), and for each of the second 12 months it is airtime with a face value of R378 million (including VAT). The cash purchase price payable is at a discount of 6% to the face value of the airtime. The minimum monthly purchases will be reduced by R125 million (including VAT) per month until TPC's airtime repurchase obligation towards the funders has been settled. Furthermore, if in any calendar quarter following the effective date of the Cell C recapitalisation, Cell C's actual MVNO Revenue is in excess of the MVNO Revenue for the relevant period as stated in the Agreed Financial Base Case, then for the following quarter the minimum monthly purchase requirement will be reduced by one-third of such excess.

Restricted inventory
Of the carrying value of inventory as of 31 May 2023, R1 billion (excluding VAT) is restricted as it is held by the funders and other third parties under the airtime sale and repurchase agreements which form part of TPC's borrowings in connection with the Cell C recapitalisation, as detailed above. As a result of TPC's repurchase obligation, the airtime stock that was sold to the funders has continued to be recognised as TPC's stock, and the repurchase obligation has been recognised as borrowings. As airtime stock is repurchased it becomes unrestricted and is available to be sold. During the next 12 months, TPC is required to repurchase R787.4 million (excluding VAT) of the restricted airtime.

Included in the carrying value of inventory as of 31 May 2023 are amounts that have been purchased to date (and not yet sold) by TPC from Cell C as part of the Cell C recapitalisation as detailed above. TPC has the right to sell this airtime stock without restriction before 28 September 2024. However, there are certain restrictions regarding TPC's ability to dispose of any of this airtime that is still on hand at that date (which carrying value of airtime management believes will be negligible), these restrictions fall away from 28 March 2026 or earlier should certain trigger events occur.

2. GROUP COMPOSITION continued

2.1 Investments in and loans to associates and joint ventures continued

2.1.1 Investments in and loans to Cell C Limited continued

Accounting implications of the Cell C Recapitalisation Transaction continued

Airtime purchase agreement

Refer to note 3.3.2

To provide Cell C with the funds to settle an aggregate amount of R197 million owing to a lessor, TPC agreed to purchase additional airtime from Cell C. Airtime with a face value of R645 million was purchased by TPC before 31 May 2023 for a cash purchase price of R161 million (including VAT), and airtime with a face value of R145 million will be purchased by TPC in September 2023 for a cash purchase price of R36 million (excluding VAT). TPC is only permitted to sell the airtime in specified tranches of face value, on specified dates, as follows: R114 million in February 2025, R8 million in February 2027, R208 million in February 2028, and R230 million in both February 2029 and in February 2030.

Acquisition of additional notes in SPV1

Refer to note 2.1.2

TPC acquired additional notes comprising 72% of the issued notes in SPV1 for R25 million. The notes have a face value of USD201 million. The only asset that SPV1 has is a 4.04% shareholding in Cell C which has been pledged as security for the repayment of the notes. The redemption date of 2 August 2022 has passed, as such TPC can demand repayment of its notes at any time and can acquire 79% of the Cell C shares held by SPV1, which constitutes a 3.19% interest in Cell C, as settlement thereof. Prior to acquiring these additional shares, TPC would first require the approval of the Competition Commission of South Africa and ICASA as such acquisition would result in TPC acquiring control of Cell C.

SPV5 derivative liability

Refer to note 3.5

A debt owing to a lessor of Cell C was transferred into a new special purpose vehicle (SPV5) in exchange for a 10% shareholding in Cell C (being the only asset of the SPV). SPV5 is required to repay the debt of R275 million in tranches from 31 December 2024 to 31 December 2026. BLT issued a guarantee in favour of the lessor for the repayment of its debt, and TPC has committed to provide SPV5 with the necessary funding as and when it is required to make the payments of R275 million to the lessor, in return for a claim of R699 million in SPV5. TPC's loan will be repayable on demand at an amount equal to: i) the capital advanced of R275 million, plus ii) R424 million, plus iii) 50% of the fair value of the Cell C shares held by SPV5 in excess of i) and ii).

The Cell C shares held by SPV5 are pledged as security in favour of TPC, however, SPV5 is permitted to sell the Cell C shares prior to TPC advancing it any funds provided that the net proceeds exceed R375 million. If SPV5 disposes of its shares in Cell C, then R275 million of the net proceeds needs to be used to settle the lessor and R100 million is to be paid to TPC as an irrevocable and unconditional break fee. Once TPC has advanced funds to SPV5, SPV5 is precluded from selling the Cell C shares without TPC's consent, but TPC has no rights with respect to directing the voting rights attached to the shares. In the event of default, TPC would be able to acquire the 10% shareholding in Cell C in settlement of its loan, but only with the prior approval of the Competition Commission of South Africa and ICASA as such acquisition would result in TPC acquiring control of Cell C. Such rights are not substantive as the Group does not have the practical ability to exercise its rights as it relates to SPV5.

Impairment of associates and joint ventures

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.

The following investments were tested for impairment in line with IAS 36, by comparing the recoverable amount against the carrying value of the investments.

Valuation of Cell C and impairment reversal

The value-in-use of Cell C as at 30 November 2022 equated to R1.5 billion, of which TPC's share amounted to R962.5 million.

Of the accumulated impairment of R2.5 billion (refer to accumulated impairment on page 53), R962.5 million was accounted for as a reversal of impairment of investment in associate. At year-end there was no further adjustment required.

The key assumptions applied in determining the value-in-use calculation as at 30 November 2022 were as follows:

	November 2022		
	Average EBITDA margin %	Terminal growth rate %	Pre-tax discount rate %
Cell C Limited	**18.3**	**4.2**	**39.0**

As a result of an indication of a reversal of the previous impairment due to the Recapitalisation Transaction, an internal valuation was performed in order to determine the value-in-use of Cell C based on cash flow projections incorporated in its five-year 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. The discount rates used are pre-tax and reflect specific risks related to Cell C. The valuation incorporates the effects of the recapitalisation which was effective end September 2022.

Considering Cell C has recently undertaken a financial recapitalisation, management was required to apply a probability of distress overlay to the Discounted Cash Flow valuation. Assumptions related to the Moody's rating of both Cell C and BLT were taken into account, given the strategic relationship between the two companies.

TPC's equity share of the value as at 30 November 2022 reflected a partial recovery following the implementation of the recapitalisation.

The recovery in value is attributable to the following:

a. a significant decrease in interest-bearing borrowings in line with a compromise offer made by Cell C to certain of its secured lenders in line with the Recapitalisation Transaction;
b. an increase in cash flow generation over the forecast period due to improved trading on the back of less constrained cash flows, however this was more than negated by the effects of the increase in the discount rate;
c. a decrease in the value of capitalised finance lease contracts due to the restructuring thereof; and
d. an increase in the value of the assessed loss tax shield due to earlier utilisation.

An increase/decrease in the following valuation inputs, when calculating the value-in-use of Cell C, would result in the following adjustments to TPC's share of the value-in-use:

	2% increase in discount rate R'000	1% decrease in terminal growth rate R'000	5% decrease in annual EBITDA R'000
Cell C Limited	**(78 912)**	**(21 359)**	**(190 390)**

The sensitivities were stress tested at year-end and no further adjustments were required.

Exposure to Cell C

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

	31 May 2023 R'000	31 May 2022 R'000
Concentration of credit risk:		
Loans receivable	**2 166 240**	—
Loss allowance on Cell C loans receivables	**(55 258)**	—
Trade receivables	**518 031**	2 612 065
Loss allowance on Cell C trade receivables	**(2 403)**	(26 717)
Other receivables	**214 548**	—
Loss allowance on Cell C other receivables	**(53 375)**	—
Payables due to Cell C:		
Trade payables	**(308 823)**	(851 473)

There is indirect exposure to Cell C as a result of the subscription sharing arrangement, refer to notes 1.2 and 4.2.

2. GROUP COMPOSITION continued

2.1 Investments in and loans to associates and joint ventures continued

2.1.2 Summary of investments in and loans to Cell C, other associates and other joint ventures

The Group holds the following investments in and loans to associates and joint ventures:

	Cost and share of reserves		Loans		Investments and loans	
	2023 R'000	2022 R'000	**2023 R'000**	2022 R'000	**2023 R'000**	2022 R'000
Cell C Limited	**—**	—	**2 110 982**	—	**2 110 982**	—
Other associates	**58 731**	53 536	**9 282**	4 067	**68 013**	57 603
Other joint ventures	**24 454**	22 611	**34 783**	44 536	**59 237**	67 147
	83 185	76 147	**2 155 047**	48 603	**2 238 232**	124 750
Disclosed as:						
– Non-current assets	**83 185**	76 147	**1 913 645**	22 745	**1 996 830**	98 892
– Current assets	**—**	—	**241 402**	25 858	**241 402**	25 858

Loans to associates and joint ventures

	Effective share-holding	Payable	Interest rate	Total loans		Current		Non-current	
				2023 R'000	2022 R'000	**2023 R'000**	2022 R'000	**2023 R'000**	2022 R'000
Cell C Limited[1]	63.19%	[3]	[3]	**2 110 982**	—	**221 670**	—	**1 889 312**	—
Blue Train Proprietary Limited[2]	64.68%	On demand	Linked to prime	**4 970**	4 067	**—**	—	**4 970**	4 067
I Talk Financial Services Proprietary Limited	30.38%	On demand	0%	**4 000**	7 259	**4 000**	7 259	**—**	—
I Talk Holdings Proprietary Limited	40.50%	On demand	Linked to prime	**19 363**	18 678	**—**	—	**19 363**	18 678
Mobii Systems Proprietary Limited	29.9%	On demand	0%	**4 315**	—	**4 315**	—	**—**	—
Mobile Macs Proprietary Limited	50%	On demand	Prime + 2%	**4 628**	—	**4 628**	—	**—**	—
T3 Telecoms SA Proprietary Limited	50%	On demand	0%	**6 789**	14 544	**6 789**	14 544	**—**	—
Wozza Airtime Proprietary Limited	50%	On demand	Prime + 2%	**—**	4 055	**—**	4 055	**—**	—
				2 155 047	48 603	**241 402**	25 858	**1 913 645**	22 745

[1] Refer to note 2.1.1 for details on the control assessment of Cell C Limited. Refer to note 3.2.1 on page 62 for details of the treatment of the loans.

[2] The Group does not control Blue Train, as it does not control the Board of Directors.

[3] Refer to note 2.1.1 for details of the interest rates linked to each loan and the payment terms.

All loans with an on-demand feature approximate fair value.

Loans receivable from Cell C

	Debt Funding[3]	Reinvestment Instrument[3]	Deferral Loan[4]	Total
	2023 R'000	2023 R'000	2023 R'000	2023 R'000
Opening balance as at 1 June 2022	—	—	—	—
Loans advanced/fair value	914 396[1]	111 112	1 035 500	2 061 008
Fair value	914 396	111 112	1 100 000	2 125 508
Loss on modification of financial asset	—	—	(64 500)	(64 500)
Interest received	208 808	25 863	82 566	317 237
Payments received	—	—	(212 004)	(212 004)
Allowance (loss)/gain	(59 991)	(2 144)	6 876	(55 259)
Closing balance as at 31 May 2023	1 063 213	134 831	912 938	2 110 982

	Debt Funding	Reinvestment Instrument	Deferral Loan
Initial fair value (R'000)	914 396[1]	111 112	1 035 500[2]
Funds advanced (R'000)	1 032 632	111 112	1 100 000
Credit adjusted effective interest rate (%)	31.25	31.80	12.67
Carrying value at 31 May 2023 (R'000)	1 063 213	134 831	912 938

[1] This is after allocating R118 million of the gross amount advanced of R1.032 billion towards the net additional 9.53% shareholding in Cell C.

[2] This is after recognising a loss on modification of financial asset at initial recognition of R64.5 million.

[3] Debt funding and reinvestment instruments

Management assessed and concluded that the funding provided (Debt Funding and the Reinvestment Instrument) to Cell C as part of its recapitalisation should be classified as originated credit impaired loans. Cell C was restructured and refinanced with the purpose of deleveraging its balance sheet, providing it with liquidity with which to operate and grow its businesses and to position itself to achieve long-term success for the benefit of its customers, employees, creditors, shareholders and its other stakeholders. Cell C utilised the TPC Debt Funding to settle the claims of secured lenders by paying an amount of 20c to the rand. The face value of the funding provided by TPC is 2.75 times the cash it advanced. This deep discount evidences incurred losses.

Although Cell C's financial plan reflects that these loans will be repaid in full, the terms of the loans are 42 months for the Reinvestment Instrument and 66 months for the Debt Funding, and there is execution risk related to the achievement of the business plan.

Interest on these loans is being recognised using a credit adjusted effective interest rate. The credit adjusted effective interest rate reflects the initial estimate of lifetime expected credit losses. This means that TPC will only recognise the cumulative changes (both favourable and unfavourable) in the initial estimate of lifetime expected credit losses as a loss allowance.

The Debt Funding and Reinvestment Instrument receivables were initially recognised at the amount of the cash advanced plus transaction costs in accordance with the requirements of IFRS 9 for instruments which utilise unobservable inputs to determine their fair value. The fair value of the additional 9.53% shareholding in Cell C that was acquired for nominal consideration has been treated as part of TPC's return for providing the funding to Cell C and has been reflected in the calculation of the effective interest rate on the loans.

[4] Deferred repayment terms of an amount of R1.1 billion owing by Cell C to CEC

CEC accounted for the change in repayment terms as a significant modification, which resulted in the derecognition of the previous trade receivable and the recognition of a new long-term loan, initially at its fair value of R1.035 billion. This resulted in the recognition of a loss of R64.5 million in profit or loss. Management assessed and concluded that this loan should be classified as an originated credit impaired loan as a result of management renegotiating the terms of the amount owing in order to assist Cell C as part of its restructuring and recapitalisation. Cell C was restructured and refinanced with the purpose of deleveraging its balance sheet, providing it with liquidity with which to operate and grow its businesses and to position itself to achieve long-term success for the benefit of its customers, employees, creditors, shareholders and its other stakeholders. Interest on this loan is being recognised using a credit adjusted effective interest rate of 12.67%. The credit adjusted effective interest rate reflects the initial estimate of lifetime expected credit losses. This means that CEC will only recognise the cumulative changes (both favourable and unfavourable) in the initial estimate of lifetime expected credit losses as a loss allowance.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

CONTINUED

for the year ended 31 May 2023

2. GROUP COMPOSITION continued

2.1 Investments in and loans to associates and joint ventures continued

2.1.2 Summary of investments in and loans to Cell C, other associates and other joint ventures continued

	Associate	
Investment in	Cell C Limited	
Principal activity	Network provider	
Country of incorporation	South Africa	
	2023 R'000	2022 R'000
Cost and share of reserves at the beginning of the period	—	—
Acquisition of associates and joint ventures	—	—
Share of (losses)/profits from associates and joint ventures	**(1 328 767)**	—
Share of results after tax	**(1 328 767)**	—
Amortisation of intangible assets	—	—
Deferred tax on intangible assets amortisation	—	—
Foreign currency translation reserve	—	—
Dividends received	—	—
Diluted	—	—
Additional investment	**366 236**[1]	—
Reversal of impairment of investment in associate	**962 531**	—
Cost and share of reserves at the end of the period	—	—
Loans to associates and joint ventures		
Loans at the beginning of the period	—	—
Loans granted to associates and joint ventures	**2 442 744**	—
Loans repaid by associates and joint ventures	**(212 004)**	—
Loans waived	—	—
Expected credit loss	**(55 258)**	—
Loss on modification of financial instrument	**(64 500)**	—
Loans at the end of the year	**2 110 982**	—
Closing net book value	**2 110 982**	—
Share of (losses)/profits from associates and joint ventures	**(1 328 767)**	—

* 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".

Included in the statement of cash flows is the "Additional investment in and acquisition of shares in associates" amounting to R373 million which is made up of "Acquisition of associates and joint ventures" of R6.4 million as well as "Additional investments" of R366 million.

	2023 R'000
Additional investment	**366 236**[1]
Acquisition of additional notes in SPV1	**25 000**
Additional shareholding in Cell C of 9.53%	**118 236**
Loan to SPV4	**223 000**

Other associates*		Other joint ventures*		Total	
2023 R'000	2022 R'000	**2023 R'000**	2022 R'000	**2023 R'000**	2022 R'000
53 536	41 258	**22 611**	14 344	**76 147**	55 602
—	17 682	**6 373**	—	**6 373**	17 682
3 550	(770)	**(4 530)**	8 812	**(1 329 747)**	8 042
3 550	325	**(4 530)**	8 812	**(1 329 747)**	9 137
—	(1 521)	**—**	—	**—**	(1 521)
—	426	**—**	—	**—**	426
1 645	1 251	**—**	—	**1 645**	1 251
—	(5 885)	**—**	—	**—**	(5 885)
—	—	**—**	(545)	**—**	(545)
—	—	**—**	—	**366 236**	—
—	—	**—**	—	**962 531**	—
58 731	53 536	**24 454**	22 611	**83 185**	76 147
4 067	—	**44 536**	22 763	**48 603**	22 763
5 915	4 115	**60 085**	22 450	**2 508 744**	26 565
—	—	**(63 552)**	(1 805)	**(275 556)**	(1 805)
—	—	**(4 000)**	—	**(4 000)**	—
(700)	(48)	**(2 286)**	1 128	**(58 244)**	1 080
—	—	**—**	—	**(64 500)**	—
9 282	4 067	**34 783**	44 536	**2 155 047**	48 603
68 013	57 603	**59 237**	67 147	**2 238 232**	124 750
3 550	(770)	**(4 530)**	8 812	**(1 329 747)**	8 042

2. GROUP COMPOSITION continued

2.1 Investments in and loans to associates and joint ventures continued

2.1.2 Summary of investments in and loans to Cell C, other associates and other joint ventures continued

Acquisition of additional notes in SPV1

The notes acquired in SPV1 fail the criteria to be classified as a financial asset at amortised cost because, by virtue of the fact that the only means SPV1 has to redeem the notes is its shareholding in Cell C, it represents an additional interest (without voting rights) in these shares subject to a limit of the debt plus accrued interest. Since Cell C is accounted for as an associate, TPC's additional interest in Cell C has also been accounted for as part of the investment in associate and equity accounted. Accordingly, the overall percentage interest in Cell C that is equity accounted reflects TPC's economic interest (and not only voting interest) which includes this additional interest of 3.19%.

The assessment of control is concerned with substantive rights as it relates to decisions about the direction of the relevant activities of the investee, and therefore, it is management's view that the additional interest without the additional right to vote, together with the operational barriers which prevent the Group from exercising its rights, will not change its assessment of whether Cell C is an associate, until such rights become substantive.

Additional shareholding in Cell C of 9.53%

The fair value at the date of recapitalisation of the 9.53% additional shares received of R118 million has been recognised as an increase in the equity-accounted investment in Cell C and as part of TPC's return on the loans to Cell C which will be recognised over the period of the funding using the effective interest method.

Loan to SPV4

The loan to SPV4 does not meet the criteria to be classified as a financial asset at amortised cost because, by virtue of the fact that the only means SPV4 has to repay the loan is the 5.47% shareholding in Cell C, it represents an additional interest (without voting rights) in these shares subject to a limit of the debt plus accrued interest. Since Cell C is accounted for as an associate, this additional interest in Cell C has also been accounted for as part of the investment in associate and equity accounted. Accordingly, the overall percentage interest in Cell C that is equity accounted reflects TPC's economic interest (and not only voting interest) which includes this additional interest (without voting rights) of 5.47%.

The assessment of control is concerned with substantive rights as it relates to decisions about the direction of the relevant activities of the investee, and therefore, it is management's view that the additional interest without the additional right to vote, together with the operational barriers which prevent the Group from exercising its rights, will not change its assessment of whether Cell C is an associate, until such rights become substantive.

Investment in	Associate Cell C Limited	
Principal activity	Mobile network	
Country of incorporation	South Africa	
Financial year-end*	31 December	
	31 May 2023 R'000	31 May 2022 R'000
Statement of financial position		
Non-current assets	**11 781 135**	12 833 049
Current assets	**3 234 213**	5 305 662
	15 015 348	18 138 711
Capital and reserves	**(4 047 141)**	(8 007 848)
Non-current liabilities	**6 698 254**	5 280 021
Current liabilities	**12 364 235**	20 866 538
	15 015 348	18 138 711
Effective percentage held (%)	**49.53**	45
Effective economic percentage held (%)[1]	**63.19**	45
Total capital and reserves	**(4 047 141)**	(8 007 848)
Cell C capital and reserves	**(11 354 946)[2]**	(15 307 778)
Carrying value of purchase price allocations net of deferred taxation	**7 307 805**	7 299 930
Accumulated impairment (refer to reconciliation below)	**(1 558 621)**	(2 521 152)
Accumulated losses not guaranteed (refer to reconciliation on page 54)	**(2 048 072)**	(4 806 908)

* 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.

[1] Refer to the "percentage of Cell C equity accounted" narrative on page 45.

[2] The opening capital and reserves of Cell C totalling a negative R15.3 billion necessitated a downward adjustment of R907 million, resulting in a correction to the company's opening net assets to a negative R16.2 billion. The downward adjustment is a result of the completion of historical audits for Cell C in the current year. The required adjustment of R907 million in Cell C's financials does not have an impact on BLT's Statement of Comprehensive Income or Statement of Financial position for the current or comparative financial year. The impact on BLT is limited to BLT's share of the accumulated losses not guaranteed as disclosed below.

Accumulated impairment

	31 May 2023 R'000
Opening balance at 31 May 2022	**(2 521 152)**
Reversal of previous impairment	**962 531**
Closing balance	**(1 558 621)**

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

CONTINUED

for the year ended 31 May 2023

2. GROUP COMPOSITION continued

2.1 Investments in and loans to associates and joint ventures continued

2.1.2 Summary of investments in and loans to Cell C, other associates and other joint ventures continued

The Group's share of accumulated losses not guaranteed

	31 May 2023 R'000
Opening balance at 31 May 2022	**(4 806 908)**
Correction to opening capital and reserves[2]	**(408 268)**
Share of profit for the year ended 31 May 2023	**1 838 337**
Operational losses	**(1 271 601)**
Effect of recapitalisation	**3 109 938**
Recognition of historical losses previously not recognised	**1 328 767**
Reversal of previous impairment	**962 531**
Additional investment	**366 236**
Closing balance	**(2 048 072)**

Financial year*	1 June 2022 to 31 May 2023 R'000	1 June 2021 to 31 May 2022 R'000
Statement of comprehensive income for the year ended		
Revenue	**11 853 745**	13 302 733
Net profit/(loss) before taxation	**4 924 453**	(2 448 510)
Taxation	**(293 644)**	—
Net profit/(loss) after taxation	**4 630 809**	(2 448 510)
Other comprehensive income	**—**	—
Share of total comprehensive income	**—**	—
Effective economic percentage held (%)	**63.19**	45
Share of profits/(losses)**	**1 838 337**	(1 101 830)

* 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.

** The Group will resume recognising its share of the profits only after its share of the profits equals the share of accumulated losses not recognised.

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]		Blue Label Data Solutions		Cigicell Proprietary Limited[2]	
Principal place of business	South Africa		South Africa		South Africa	
Segment	Africa Distribution		Solutions		Africa Distribution	
	2023	2022	**2023**	2022	**2023**	2022
NCI (%)	**40**	40	**19**	19	**26**	26
	R'000	R'000	**R'000**	R'000	**R'000**	R'000
Non-current assets	**70 230**	16 733	**40 901**	52 358	**30 948**	49 113
Current assets	**66 202**	84 571	**86 034**	69 088	**727 738**	664 933
Total assets	**136 432**	101 304	**126 935**	121 446	**758 686**	714 046
Capital and reserves	**96 921**	74 778	**70 076**	72 944	**229 433**	196 005
Non-current liabilities	**15 642**	11 471	**1 496**	1 153	**—**	23
Current liabilities	**23 869**	15 055	**55 363**	47 349	**529 253**	518 018
Total equity and liabilities	**136 432**	101 304	**126 935**	121 446	**758 686**	714 046
Accumulated NCI[3]	**41 489**	31 530	**13 314**	13 859	**59 653**	51 215
Summarised statement of comprehensive income for the year ended 31 May						
Revenue	**147 346**	134 734	**257 811**	230 589	**252 934**	304 440
Total comprehensive income for the year	**20 990**	25 203	**22 133**	31 142	**33 428**	181 417
Comprehensive income allocated to NCI	**8 396**	10 081	**4 205**	5 917	**8 397**	47 869
Summarised cash flows for the year ended 31 May						
Cash flows generated from/(utilised in) operating activities	**39 324**	34 845	**18 375**	16 171	**(15 851)**	54 210
Cash flows generated from/(utilised in) investing activities	**36 089**	3 225	**(20 959)**	9 256	**638**	(1 378)
Cash flows generated from/(utilised in) financing activities	**2 166**	(56 173)	**3 626**	13 488	**10 370**	(64 507)
Net (decrease)/increase in cash and cash equivalents	**77 579**	(18 103)	**1 042**	38 915	**(4 843)**	(11 675)
Dividends paid to NCI	**—**	22 000	**4 750**	2 850	**—**	5 200

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

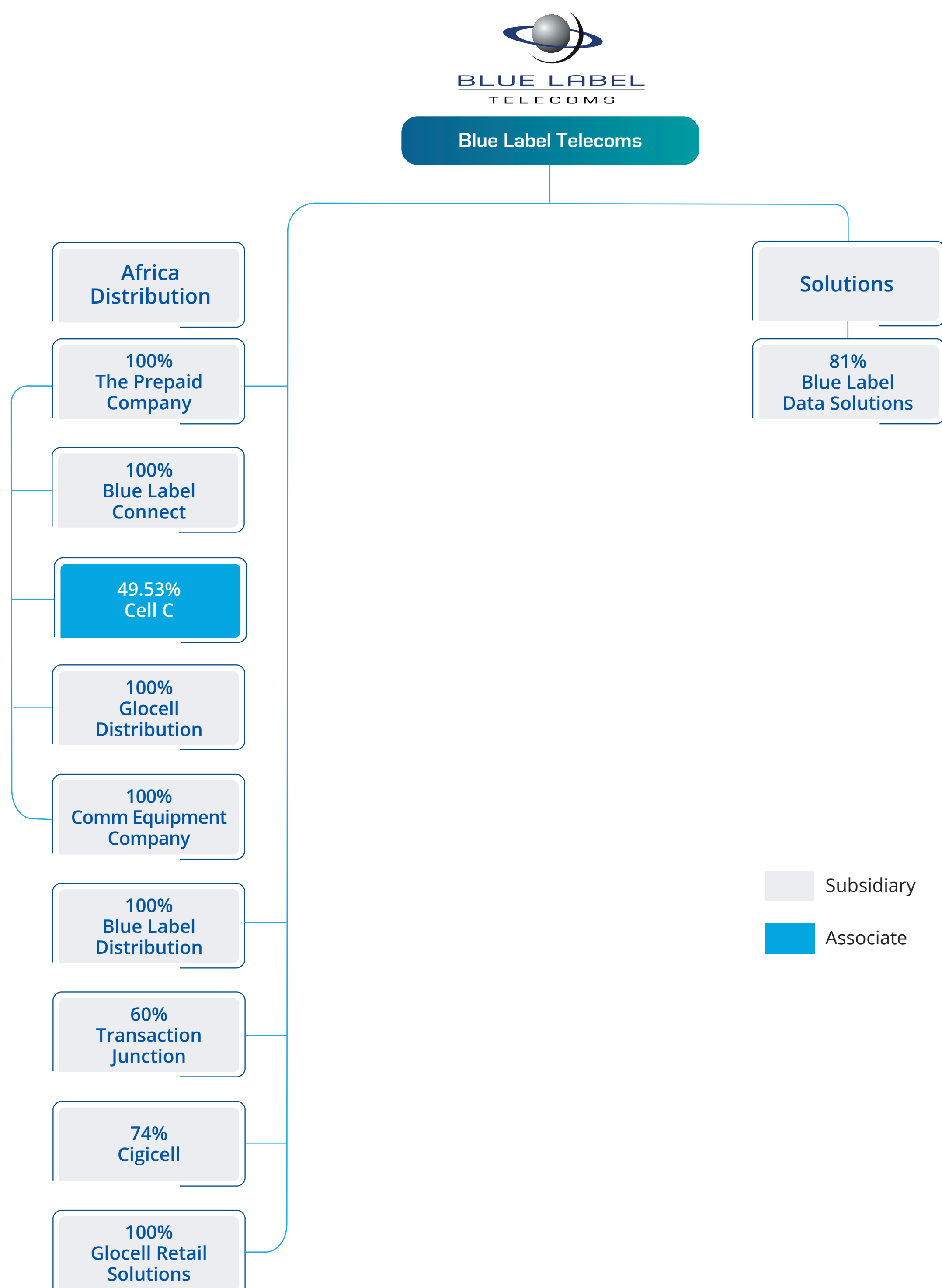
[2] Cigicell Proprietary Limited includes its subsidiary, Visual Revenue Management Proprietary Limited (VRM).

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

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



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

3. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

3.1 Financial instruments

Financial instruments carried on the statement of financial position are as follows:

Classes	Categories	Carrying value 2023 R'000	Carrying value 2022 R'000
Non-current assets			
Loans to associates	Amortised cost	**1 913 645**	22 745
Loans receivable	Amortised cost	**65 386**	48 913
Advances to customers	Amortised cost	**810 252**	547 711
Financial assets at fair value through profit or loss	Fair value through profit or loss	**113 151**	133 293
Financial assets at fair value through other comprehensive income	Fair value through other comprehensive income	**—**	8 536
		2 902 434	761 198
Current assets			
Loans to associates	Amortised cost	**241 402**	25 858
Loans receivable	Amortised cost	**38 804**	32 801
Trade and other receivables[1]	Amortised cost	**2 262 455**	4 160 316
Advances to customers	Amortised cost	**1 446 950**	1 119 827
Financial assets at fair value through profit or loss	Fair value through profit or loss	**61 028**	14 008
Financial assets at fair value through other comprehensive income	Fair value through other comprehensive income	**12 914**	11 688
Cash and cash equivalents	Amortised cost	**1 302 770**	2 723 591
		5 366 323	8 088 089
Non-current liabilities			
Non-current lease liability	Amortised cost	**23 462**	9 498
Financial liabilities at fair value through profit or loss	Fair value through profit or loss	**61 824**	—
Borrowings	Amortised cost	**1 842 765**	474 471
		1 928 051	483 969
Current liabilities			
Trade and other payables[2]	Amortised cost	**5 484 989**	5 916 686
Lease liability	Amortised cost	**9 239**	37 384
Financial liabilities at fair value through profit or loss	Fair value through profit or loss	**—**	22 200
Borrowings	Amortised cost	**2 230 355**	2 094 000
Bank overdraft	Amortised cost	**3**	63
		7 724 586	8 070 333
		(1 383 880)	294 985

[1] Carrying value per statement of financial position is R3.061 billion (2022: R4.743 billion) which includes R798 million (2022: R583 million) relating to prepayments and tax receivables, which are not financial assets.

[2] Carrying value per statement of financial position is R5.636 billion (2022: R6.069 billion) which includes R151 million (2022: R152 million) relating to employee benefits and tax payables, which are not financial liabilities.

Financial assets and liabilities are recognised when the Group becomes a party to the contractual provisions of the instruments.

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

3.1 Financial instruments continued

Measurement on initial recognition

All financial assets (unless it is a trade receivable without a significant financing component) and financial 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 incurrence of financial liabilities, classified 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.

In instances in which the valuation techniques applied to determine fair value of financial assets/financial liabilities on initial recognition do not use only data that is from observable markets, any resulting day 1 gains/losses are deferred and are recognised as part of the carrying values of the related financial asset/financial liability. These gains/losses are only recognised subsequently to the extent that they arise from a change in a factor (including time) that market participants would take into account when pricing the financial asset/financial liability.

Subsequent measurement

Subsequent measurement of financial assets and financial liabilities depends on their classification.

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.

Category	Subsequent measurement
Financial assets	
Amortised cost	The financial 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 other comprehensive income	The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, 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	The financial asset does not qualify for measurement at amortised cost or fair value through other comprehensive income.

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:

- derivatives which are measured at fair value through profit or loss;
- financial liabilities designated by the Group upon initial recognition to be at fair value through profit or loss because of the existence of one or more derivatives embedded within the financial liabilities which would otherwise need to be separated out resulting in the host financial liabilities being measured at amortised cost and the derivative(s) being measured at fair value through profit or loss; and
- financial guarantee contracts which are measured initially at their fair value, and subsequently at the higher of:
  - the amount of the loss allowance determined using the same approach as that used for impairment of financial assets measured at amortised cost (see Impairment of financial assets measured at amortised cost on page 59; and
  - the initial fair value less, when appropriate, the cumulative amount of income recognised in accordance with the principles of revenue recognition.

Financial assets are classified as current on the statement of financial position if expected to be realised within 12 months of the statement of financial position reporting 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 reporting date; if not, they are classified as current.

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, or their terms have been modified significantly. Financial liabilities are derecognised when the obligations specified in the contracts are discharged, cancelled or expire, or their terms have been modified significantly. On derecognition of a financial asset/liability, any difference between the carrying amount derecognised and the consideration received/paid (or the fair value of a new financial asset/liability recognised in instances of a significant modification) is recognised in profit or loss. In instances of a significant modification, transaction costs are expensed immediately in profit or loss.

Impairment of financial assets measured at amortised cost

The Group calculates its allowance for credit losses for financial assets measured at amortised cost using expected credit losses (ECLs). Credit losses are 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), discounted at the original effective interest rate (EIR), or at the original credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets. ECLs are probability weighted averages of credit losses.

For all financial assets measured at amortised cost, except for trade and other receivables, the Group measures the related loss allowance at an amount equal to 12-month ECLs, which is the portion of lifetime ECLs that result from default events that are possible within the 12 months after the reporting date. Once a significant increase in credit risk occurs, the loss allowance is measured based on lifetime ECLs. For trade and other receivables, the Group measures the related loss allowance at lifetime ECLs from initial recognition.

Purchased or originated credit-impaired financial assets are financial assets that are credit-impaired on initial recognition. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred, for example:

- significant financial difficulty of the borrower;
- default or past due event;
- other lenders having granted the borrower concessions for economic or contractual reasons relating to the borrower's financial difficulty that they would not otherwise consider;
- probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

Since the original credit-adjusted effective interest rate reflects lifetime ECLs at initial recognition, the Group only recognises the cumulative changes in lifetime ECLs since initial recognition as a loss allowance for purchased or originated credit-impaired financial assets.

3.2 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 interest rate and foreign currency 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.

3.2.1 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 financial instruments table above. The carrying amounts of financial assets represent the maximum credit exposure.

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

3.2 Financial risk management continued

3.2.1 Credit risk continued

Expected credit losses

The Group tracks significant increases in credit risk using information available to the Group 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.

The Group calculates its allowance for credit losses for financial assets measured at amortised cost using expected credit losses (ECLs).

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. 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% (2022: 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 and future payments are either suspended or unlikely.

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

The groupings, as referenced throughout this note, 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.
- Group 5 (POCI) financial assets are typically Stage 3.

The table below discloses the credit quality of the financial assets carried at amortised cost (excluding advances to customers and trade receivables) of the Group:

	2023 R'000	2022 R'000
Group 1	**1 428 338**	2 769 084
Group 2	**10 573**	23 989
Group 3	**10 373**	60 835
Group 4	**1 741**	—
Group 5	**2 110 982**	—
Total	**3 562 007**	2 853 908

The movement in ECLs:

	2023 R'000	2022 R'000
Provision for impairment		
Balance at the beginning of the year	**265 723**	331 772
Allowances made during the year	**735 099**	261 475
Amounts utilised	**(287 999)**	(327 524)
At 31 May	**712 823**	265 723

(i) 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 the majority of its credit risk with Investec Bank Limited in line with its treasury function. Investec Bank Limited has a credit rating of Ba2 based on the latest Moody's local currency long-term issuer default ratings.

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 Ba2 or better, or cash on hand. Insignificant ECL.

	2023 R'000	2022 R'000
Counterparties with external credit rating		
Group 1	**1 302 770**	2 723 591
Total	**1 302 770**	2 723 591

(ii) Loans to associates and joint ventures

The Group has provided loans to associates and joint ventures of the Group as part of specific transactions, to satisfy operational as well as other requirements. These associates and joint ventures are located in South Africa. 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. Refer to note 2.1.2.

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

3.2 Financial risk management continued

3.2.1 Credit risk continued

Critical accounting judgements and assumptions

Funding provided to Cell C – originated credit-impaired

The Group believed that at the time of providing the funding to Cell C, as part of the September 2022 Recapitalisation Transaction, such funding was considered to be credit impaired in line with IFRS 9 with reference to Appendix A. Cell C was restructured and refinanced with the purpose of deleveraging its balance sheet, providing it with liquidity with which to operate and grow its businesses and to position itself to achieve long-term success for the benefit of its customers, employees, creditors, shareholders and its other stakeholders. Cell C utilised the TPC Debt Funding to settle the claims of secured lenders by paying an amount of 20c to the rand. The face value of the funding provided by TPC is 2.75 times the cash it advanced. This deep discount evidences incurred losses. Although Cell C's financial plan reflects that the Group's funding will be repaid in full, there is execution risk related to the achievement of the business plan.

Accordingly, all funding provided to Cell C (including significant modifications of existing funding – refer to note 2.1.2 relating to the "Deferred repayment terms of an amount of R1.1 billion owing by Cell C to CEC") in relation to the September 2022 Recapitalisation Transaction are classified as originated credit-impaired financial assets.

The table below discloses the credit quality of the loans to associates and joint ventures of the Group for which no external credit ratings are available. Equivalent credit ratings were based on the latest Moody's default ratings. These ratings include forward looking adjustments for all relevant economic factors. Management defines default as when counterparties fail to make payments and future payments are either suspended or unlikely. Management writes off loans where they have actively pursued the debt and there is no indication of recovery.

Group 1: Fully performing counterparties with a credit rating equivalent to a Moody's rating of B1 or higher. ECL range up to 9.57% (2022: up to 7.63%).

Group 2: Fully performing counterparties with a credit rating equivalent to a Moody's rating of between B1 and B2. ECL range of 9.57% to 11.66% (2022: 7.63% to 9.26%).

Group 3: Fully performing counterparties with a credit rating equivalent to a Moody's rating of between B2 and Ca. ECL range of 11.66% to 53.39% (2022: 9.26% to 54.0%).

Group 4: Counterparties who are considered to be in default and have an equivalent Moody's rating of Ca or lower. ECL of 53.39% to 100% (2022: 54.0% to 100%).

Group 5: Counterparties which have been designated as credit impaired or originated credit impaired loans. ECL based on the credit rating of the underlying counterparty.

	Gross carrying amount R'000	Loss (allowance)/ reversal R'000	Net carrying amount R'000	Average ECL/ impairment ratio %
31 May 2023				
Loans advanced to counterparties without external ratings included in:				
Group 1	**41 001**	**(1 251)**	**39 750**	**(3.05)**
Group 3	**4 884**	**(569)**	**4 315**	**(11.65)**
Group 4	**2 338**	**(2 338)**	**—**	**(100.00)**
Group 5	**2 166 241**	**(55 259)**	**2 110 982**	**(3.00)**
	2 214 464	**(59 417)**	**2 155 047**	
31 May 2022				
Loans advanced to counterparties without external ratings included in:				
Group 1	41 776	(432)	41 344	(1.03)
Group 3	8 000	(741)	7 259	(9.26)
	49 776	(1 173)	48 603	

The loss allowances as at 31 May 2023 for loans to Cell C, which are included in group 5 above, are determined as follows:

2023	Basis of loss allowance	Gross carrying amount before modification R'000	Loss on modification of financial asset at initial recognition R'000	Loss (allowance)/ reversal R'000	Net carrying amount R'000
Deferral Loan	Lifetime ECL (originated credit impaired)	**970 562**	**(64 500)**	**6 876**	**912 938**
Debt Funding	Lifetime ECL (originated credit impaired)	**1 123 204**	**—**	**(59 991)**	**1 063 213**
Reinvestment Instrument	Lifetime ECL (originated credit impaired)	**136 975**	**—**	**(2 144)**	**134 831**
		2 230 741	**(64 500)**	**(55 259)**	**2 110 982**

(iii) Loans receivable

The Group has provided loans to third parties who are seen as product distributors, in order to expand its 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.

The table below discloses the credit quality of the loans receivable of the Group for which no external credit ratings are available. Equivalent credit ratings were based on the latest Moody's default ratings. These ratings include forward looking adjustments for all relevant economic factors. Management defines default as when counterparties miss payments and future payments are either suspended or unlikely. Management writes off loans where they have actively pursued the debt and there is no indication of recovery.

Group 1: Fully performing counterparties with a credit rating equivalent to a Moody's rating of B1 or higher. ECL range up to 9.57% (2022: up to 7.63%).

Group 2: Fully performing counterparties with a credit rating equivalent to a Moody's rating of between B1 and B2. ECL range of 9.57% to 11.66% (2022: 7.63% to 9.26%).

Group 3: Fully performing counterparties with a credit rating equivalent to a Moody's rating of between B2 and Ca. ECL range of 11.66% to 53.39% (2022: 9.26% to 54.0%).

Group 4: Counterparties who are considered to be in default and have an equivalent Moody's rating of Ca or lower. ECL of 53.39% to 100% (2022: 54.0% to 100%).

Group 5: Counterparties which have been designated as credit impaired or originated credit impaired loans. ECL based on the credit rating of the underlying counterparty.

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

3.2 Financial risk management continued

3.2.1 Credit risk continued

(iii) Loans receivable *continued*

The loss allowance as at 31 May 2023 for loans receivable is determined as follows:

	Gross R'000	Loss (allowance)/ reversal R'000	Net carrying amount R'000	Average ECL/ impairment ratio %
31 May 2023				
Loans advanced to counterparties without external ratings included in:				
Group 1	**93 647**	**(7 829)**	**85 818**	**(8.36)**
Group 2	**11 692**	**(1 119)**	**10 573**	**(9.57)**
Group 3	**7 139**	**(1 081)**	**6 058**	**(15.14)**
Group 4	**8 671**	**(6 930)**	**1 741**	**(79.92)**
	121 149	**(16 959)**	**104 190**	
31 May 2022				
Loans advanced to counterparties without external ratings included in:				
Group 1	4 242	(93)	4 149	(2.19)
Group 2	25 894	(1 905)	23 989	(7.36)
Group 3	60 818	(7 242)	53 576	(11.91)
Group 4	4 984	(4 984)	—	(100.00)
	95 938	(14 224)	81 714	

(iv) Advances to customers

Advances to customers represent the activities of the Group's subsidiary, CEC, which provides financing for cellular handsets. This customer base is widely dispersed throughout South Africa and no significant concentrations of credit risk have been noted.

The business model of these financing arrangements exposes the Group to the credit risk of the population of the underlying subscribers who are all customers of Cell C Service Provider Proprietary Limited and other business partners of CEC.

Management has put in place credit risk policies as well as stringent customer acceptance policies and limits to manage the credit risk exposure at deal initiation. Subsequent to deal initiation, credit risk at a subscriber level is managed through a combination of policies and procedures which limit the customers' ability to incur further debt should their accounts not be up to date.

The Group calculates an ECL for the instruments in this portfolio in accordance with the general approach in IFRS 9 using a provision matrix model (refer to detail under (v) Trade and other receivables) which takes into account, among others: roll rates; past performance, incorporated through staging, default and curing definitions; and applicable forward looking indicators in line with Group policy. The Group continually refines and improves the model applied to take into account new information and additional data that becomes available as internal processes evolve. These improvements are accounted for prospectively as changes to the ECL estimate when they arise.

The loss allowance as at 31 May 2023 for advances to customers is determined as follows:

	Gross R'000	Loss (allowance)/ reversal R'000	Net carrying amount R'000	Average ECL/ impairment ratio %
31 May 2023				
Advances to customers without external ratings:				
Collateralised handset financing receivables*	—	—	—	—
Handset financing and subscription income sharing receivables				
Fully performing	**2 031 224**	**(55 097)**	**1 976 127**	**(2.71)**
Past due by 1 to 30 days	**116 118**	**(24 598)**	**91 520**	**(21.18)**
Past due by 31 to 60 days	**48 833**	**(18 801)**	**30 032**	**(38.50)**
Past due by more than 60 days	**643 006**	**(483 483)**	**159 523**	**(75.19)**
	2 839 181	**(581 979)**	**2 257 202**	
31 May 2022				
Advances to customers without external ratings:				
Collateralised handset financing receivables*	67 355	(782)	66 573	(1.16)
Handset financing and subscription income sharing receivables				
Fully performing	1 415 881	(50 476)	1 365 405	(3.56)
Past due by 1 to 30 days	112 748	(34 181)	78 567	(30.32)
Past due by 31 to 60 days	50 325	(19 375)	30 950	(38.50)
Past due by more than 60 days	270 685	(144 642)	126 043	(53.44)
	1 916 994	(249 456)	1 667 538	

* Handset financing receivables related to previous commercial arrangement with Cell C.

Once the recoverability of these receivables comes into question, the amount is handed over to external debt collectors and if not recovered within the time frame detailed in our Collection Policy, is written off.

(v) 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. All of the Group's revenues are generated in South Africa. 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. 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 and other financial institutions, major retailers, independent and informal retail customers, petroleum forecourts, municipalities, private utilities and cellular networks. The balance of the customer base is widely dispersed.

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

3.2 Financial risk management continued

3.2.1 Credit risk continued

(v) Trade and other receivables continued

Provision matrix (including advances to customers)

ECLs are calculated by applying a loss ratio to the aged balance of 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. 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 and other financial institutions, 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 PD and LGD are then adjusted for forward looking information to determine a point-in-time adjustment. Forward looking information is also used to derive a base, upside and downside scenario given multiple forecasts under the guidance of Moody's. These assumptions are applied to determine the ECL for the portfolio of receivables at the reporting date to the extent that there is a strong correlation between the forward looking information and the ECL.

In most instances, no material adjustments were required to accommodate forward looking information, as the majority of receivables were settled within a relatively short period (under 60 days on average). Macro-economic forecasts have been included in the ECL calculation for advances to customers.

The Group used 60 to 84 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.

Management considers trade receivables aged in excess of 60 days (advances to customers)/90 days (trade receivables) 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 circumstances 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.

The loss allowance as at 31 May 2023 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	Loss (allowance)/ reversal R'000	Net carrying amount R'000	Average ECL/ impairment ratio %
31 May 2023				
Fully performing receivables				
Trade receivables arising on revenue from contracts with customers				
Banks and other financial institutions	109 931	(13)	109 918	(0.01)
Independent and informal retail customers	247 834	(466)	247 368	(0.19)
Formal market retail customers	304 899	(865)	304 034	(0.28)
Customers in the petroleum sector	80 745	(64)	80 681	(0.08)
Receivables for starter packs	39 793	(28)	39 765	(0.07)
Cell C	4 212	(10)	4 202	(0.24)
Other cellular networks	530 557	(23)	530 534	(0.00)
Municipalities and private utilities	63 335	—	63 335	—
Trade receivables arising on financing transactions				
Cell C	248 524	(2 055)	246 469	(0.83)
Other	93 319	(369)	92 950	(0.40)
Sundry receivables	202 714	(54 468)	148 246	(26.87)
Receivables from revenue recognised on fixed term contracts	130 339	—	130 339	—
Past due receivables				
Trade receivables arising on revenue from contracts with customers				
Banks and other financial institutions				
Past due by 1 to 30 days	203	—	203	—
Past due by 31 to 60 days	—	—	—	—
Past due by 61 to 90 days	—	—	—	—
Past due by more than 90 days	—	—	—	—
Independents and informal retail customers				
Past due by 1 to 30 days	13 692	(156)	13 536	(1.14)
Past due by 31 to 60 days	1 506	(344)	1 162	(22.84)
Past due by 61 to 90 days	2 028	(581)	1 447	(28.65)
Past due by more than 90 days	21 106	(15 141)	5 965	(71.74)

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

3.2 Financial risk management continued

3.2.1 Credit risk continued

(v) Trade and other receivables continued

Ageing and impairment analysis continued

	Gross R'000	Loss (allowance)/ reversal R'000	Net carrying amount R'000	Average ECL/ impairment ratio %
Formal market retail customers				
Past due by 1 to 30 days	4 855	(5)	4 850	(0.10)
Past due by 31 to 60 days	22	—	22	—
Past due by 61 to 90 days	3 614	—	3 614	—
Past due by more than 90 days	2 267	(2 267)	—	(100.00)
Customers in the petroleum sector				
Past due by 1 to 30 days	74	(2)	72	(2.70)
Past due by 31 to 60 days	3	—	3	—
Past due by 61 to 90 days	353	(10)	343	(2.83)
Past due by more than 90 days	2 266	(2 266)	—	(100.00)
Receivables for starter packs				
Past due by 1 to 30 days	34 316	(100)	34 216	(0.29)
Past due by 31 to 60 days	208	—	208	—
Past due by 61 to 90 days	3	—	3	—
Past due by more than 90 days	360	(360)	—	(100.00)
Cell C				
Past due by 1 to 30 days	2 344	(11)	2 333	(0.47)
Past due by 31 to 60 days	6 440	(48)	6 392	(0.75)
Past due by 61 to 90 days	—	—	—	—
Past due by more than 90 days	279	(279)	—	(100.00)
Other cellular networks				
Past due by 1 to 30 days	40	—	40	—
Past due by 31 to 60 days	97	—	97	—
Past due by 61 to 90 days	48	—	48	—
Past due by more than 90 days	400	(400)	—	(100.00)
Municipalities and private utilities				
Past due by 1 to 30 days	16 113	—	16 113	—
Past due by 31 to 60 days	25 595	—	25 595	—
Past due by 61 to 90 days	44 475	—	44 475	—
Past due by more than 90 days	104 832	(955)	103 877	(0.91)
	2 343 741	(81 286)	2 262 455	(3.47)

	Gross R'000	Loss (allowance)/ reversal R'000	Net carrying amount R'000	Average ECL/ impairment ratio %
31 May 2022				
Fully performing receivables				
Trade receivables arising on revenue from contracts with customers				
Banks and other financial institutions	78 751	(9)	78 742	(0.01)
Independent and informal retail customers	526 889	(1 887)	525 002	(0.36)
Formal market retail customers	152 472	(550)	151 922	(0.36)
Customers in the petroleum sector	68 655	(20)	68 635	(0.03)
Receivables for starter packs	51 549	(72)	51 477	(0.14)
Cell C	3 782	(14)	3 768	(0.37)
Other cellular networks	65 844	(3)	65 841	(0.00)
Municipalities and private utilities	86 419	—	86 419	—
Trade receivables arising on financing transactions				
Cell C	2 557 395	(26 595)	2 530 800	(1.04)
Other	14 389	(59)	14 330	(0.41)
Sundry receivables	193 414	(870)	192 544	(0.45)
Receivables from revenue recognised on fixed term contracts	134 036	—	134 036	—
Past due receivables				
Trade receivables arising on revenue from contracts with customers				
Banks and other financial institutions				
Past due by 1 to 30 days	445	—	445	—
Past due by 31 to 60 days	13	—	13	—
Past due by 61 to 90 days	—	—	—	—
Past due by more than 90 days	5 726	(5 726)	—	(100.00)
Independents and informal retail customers				
Past due by 1 to 30 days	75 990	(148)	75 842	(0.19)
Past due by 31 to 60 days	4 892	(133)	4 759	(2.72)
Past due by 61 to 90 days	1 553	(130)	1 423	(8.37)
Past due by more than 90 days	18 584	(18 584)	—	(100.00)
Formal market retail customers				
Past due by 1 to 30 days	140	—	140	—
Past due by 31 to 60 days	—	—	—	—
Past due by 61 to 90 days	3	(1)	2	(33.33)
Past due by more than 90 days	5 609	(5 609)	—	(100.00)

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

3.2 Financial risk management continued

3.2.1 Credit risk continued

(v) Trade and other receivables continued

Ageing and impairment analysis continued

	Gross R'000	Loss (allowance)/ reversal R'000	Net carrying amount R'000	Average ECL/ impairment ratio %
Customers in the petroleum sector				
Past due by 1 to 30 days	1 249	—	1 249	—
Past due by 31 to 60 days	70	—	70	—
Past due by 61 to 90 days	16	—	16	—
Past due by more than 90 days	3 548	(3 548)	—	(100.00)
Receivables for starter packs				
Past due by 1 to 30 days	21 297	(201)	21 096	(0.94)
Past due by 31 to 60 days	1 171	(4)	1 167	(0.34)
Past due by 61 to 90 days	1	—	1	—
Past due by more than 90 days	67	(67)	—	(100.00)
Cell C				
Past due by 1 to 30 days	2 794	(25)	2 769	(0.89)
Past due by 31 to 60 days	929	(8)	921	(0.86)
Past due by 61 to 90 days	—	—	—	
Past due by more than 90 days	75	(75)	—	(100.00)
Other cellular networks				
Past due by 1 to 30 days	56 764	—	56 764	—
Past due by 31 to 60 days	—	—	—	—
Past due by 61 to 90 days	—	—	—	—
Past due by more than 90 days	—	—	—	—
Municipalities and private utilities				
Past due by 1 to 30 days	28 536	—	28 536	—
Past due by 31 to 60 days	10 656	—	10 656	—
Past due by 61 to 90 days	6 736	—	6 736	—
Past due by more than 90 days	47 070	(2 875)	44 195	(6.11)
	4 227 529	(67 213)	4 160 316	(1.59)

The movement in ECLs:

	Trade receivables	
	2023 R'000	2022 R'000
Provision for impairment of receivables		
Balance at the beginning of the year	**66 343**	54 772
Allowances made during the year	**(12 518)**	30 887
Amounts utilised**	**(27 007)**	(19 316)
At 31 May	**26 818**	66 343

** Expected credit losses utilised in the write-off of long outstanding trade and loans receivable, where collection avenues were exhausted.

Credit risk sensitivity analysis

The receivables are mainly exposed to the change in the probability of default of Cell C Limited, as well as changes in the non-credit adjusted effective interest rates. The following table details the Group's sensitivity to a change in these parameters.

Financial instrument	Significant unobservable parameter	**Potential effect on profit/(loss) and retained earnings* R'000**
Debt funding	Probability of default of Cell C Non-credit adjusted EIR	**(16 613)/15 673**
Reinvestment instrument	Probability of default of Cell C Non-credit adjusted EIR	**(1 669)/1 582**
Deferral loan	Probability of default of Cell C Non-credit adjusted EIR	**(6 374)/6 797**

* Relates to a 10% increase/decrease in the probability of default.

The effect of credit risk on hedging instruments

On 7 October 2020, TPC entered into an interest rate swap agreement in respect of its variable rate facility agreement in order to hedge its interest rate risk (refer to note 3.7 for more detail).

By using derivative financial instruments to hedge exposures to changes in interest rates, TPC also exposes itself to credit risk of the derivative counterparty, which is not offset by the hedged item. TPC minimises counterparty credit risk in derivative instruments by entering into transactions with high-quality counterparties.

At inception of each hedge, it was determined that the effects of credit risk are not expected to dominate the value changes arising from the hedging relationship as all relevant metrics to demonstrate the existence of an economic relationship have been satisfied.

At each subsequent reporting date, hedge effectiveness for each hedging relationship will be assessed and the effects of credit risk will be considered.

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

3.2 Financial risk management continued

3.2.2 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 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
2023						
Airtime repurchase obligations – lenders	3.4.2	**70 192**	**772 109**	**280 544**	**—**	**—**
Airtime repurchase obligations – other third parties	3.4.2	**14 687**	**132 183**	**—**	**—**	**—**
Class A Preference Shares	3.4.2	**—**	**—**	**—**	**292 621**	**—**
Other interest-bearing borrowings	3.4.2	**28 323**	**1 681 578**	**1 356 170**	**—**	**—**
Non-interest-bearing borrowings	3.4.2	**2 719**	**—**	**—**	**—**	**—**
Trade and other payables*	3.4.1	**3 081 445**	**2 455 782**	**—**	**—**	**—**
Lease liabilities	3.8	**848**	**10 983**	**12 104**	**14 217**	**—**
Financial liabilities at fair value through profit or loss	3.5	**—**	**—**	**100 000**	**175 000**	**—**
Bank overdraft	3.3.4	**3**	**—**	**—**	**—**	**—**
Total		**3 198 217**	**5 052 635**	**1 748 818**	**481 838**	**—**
2022						
Interest-bearing borrowings	3.4.2	14 130	2 198 187	495 308	—	—
Non-interest-bearing borrowings	3.4.2	719	—	—	—	—
Trade and other payables*	3.4.1	2 369 306	3 560 412	—	—	—
Lease liabilities	3.8	2 676	36 306	7 096	3 210	—
Derivative liability	3.5	—	110 000	—	—	—
Other financial liabilities at fair value through profit or loss	3.5	—	23 282	—	—	—
Bank overdraft	3.3.4	63	11	—	—	—
Total		2 386 894	5 928 198	502 404	3 210	—

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

As part of the restructure of the debt into Cell C by third-party lenders, TPC 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 TPC's obligation in this regard to a maximum of USD44 million. As at 31 May 2021, the Group had contributed the full USD44 million to SPV2.

Liquidity risk sensitivities

Preference Share A and the airtime sale and repurchase obligations are mainly exposed to the change in the probability of default of Cell C Limited. The following table details the Group's sensitivity to a change in this parameter.

Financial instrument	Significant unobservable parameter	Potential effect on profit/(loss) and retained earnings* R'000
Preference Share A	Probability of default of Cell C Non-credit adjusted EIR	**(10 269)/9 628**
Airtime sale and repurchase obligation – from lenders	Probability of default of Cell C Non-credit adjusted EIR	**2 152/(2 189)**
Airtime sale and repurchase obligation – other third parties	Probability of default of Cell C Non-credit adjusted EIR	**375/(375)**

* Relates to a 10% increase/decrease in the probability of default.

Group facilities

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

Facility	Borrower	Investec Bank	Rand Merchant Bank	African Bank	Value R'000	Interest rate	Interest period	Final repayment date
General banking facility	The Prepaid Company Proprietary Limited	69.6%	30.4%	—	**500 000**	Prime + 1%	Monthly	30 Sep 2024
Revolving Facility A	The Prepaid Company Proprietary Limited	100%	—	—	**660 000**	Prime + 1%	Monthly	30 Sep 2024
Revolving Facility B	The Prepaid Company Proprietary Limited	—	100%	—	**240 000**	Prime + 1%	Monthly	30 Sep 2024
African Bank	Comm Equipment Company Proprietary Limited	—	—	100%	**1 900 000**	11.05% Fixed to 30 Oct 2023	Monthly	25 Nov 2025*
					3 300 000			

* This is a revolving credit facility with draw downs available until October 2023. Facility repayment commences in November 2023 with the final settlement date being November 2025. The facility is currently in the process of being renegotiated.

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

3.2 Financial risk management continued

3.2.2 Liquidity risk continued

Group facilities

The working capital loan facilities available to TPC at year-end amounted to R1.4 billion (2022: R1.125 billion), of which R1.003 billion (2022: R942 million) had been utilised. Refer to note 3.4.2.

- The general banking facility available to TPC at year-end is required to reduce by R20 million per month from October 2023 to September 2024, to R260 million. The balance of this facility as well as revolving facilities A and B are payable in September 2024.
- The following debt covenants applied to the TPC facilities with Investec and Rand Merchant Bank:
  - Total consolidated debt to adjusted consolidated EBITDA ratio must be less than a stipulated decreasing ratio at each measurement period, from 4.0 times at 31 May 2023 to 2.25 times at 31 August 2024; and
  - BLT's market capitalisation must exceed R3 billion.

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

The Group has pledged the following securities in respect of this facility and the airtime sale and repurchase obligation from the lenders (refer to note 3.4.2):

- A General Notarial Bond over all the moveable assets of Blue Label Distribution Proprietary Limited, limited to R950 million;
- A General Notarial Bond over all the moveable assets of BLT, TPC and Cigicell Proprietary Limited, limited to R4.75 billion each;
- Cession & *Securitatem Debiti* by certain Group companies of all of their incorporeal moveable assets and claims;
- A counter indemnity issued by certain Group companies indemnifying the lenders against any loss that they may suffer as a result of enforcing their rights;
- A Cession in *Securitatem Debiti* by certain Group companies in favour of the lenders as a result of the lenders invoking revisionary and/or principle rights which they may have against any entity guaranteeing the principle debt owed by TPC; and
- A Subordination by Blue Label Telecoms Limited and its subsidiaries of any and all inter Group claims which each may have against the other, in favour of debt and/or obligations owed by any of them to lenders.

CEC has a financing facility with African Bank of R1.9 billion (2022: R1.9 billion).

- The utilised portion of the facility at year-end amounted to R1.9 billion (2022: R1.623 billion). Refer to note 3.4.2.
- The Group has pledged the outstanding value of handset receivables totalling R2.1 billion as security for the utilised facility.

In addition to these facilities, the Group has sufficient working capital resources in the form of cash, trade receivables and realisable inventory to be able to adequately meet its short-term obligations.

Pledges, guarantees and sureties

Blue Label Telecoms and TPC have issued guarantees to the value of R250 million for the African Bank 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 substantially unchanged from the prior year, comprised an overdraft facility of R19.85 million, credit card facility of R1.4 million and a debit order settlement facility of R11 million.

Guarantees to the value of R689 million (2022: R2.4 billion) are issued by the Group's bankers in favour of suppliers on behalf of the Group. The Group does not have access to these funds while amounts owing to suppliers are outstanding. Further guarantees to the value of R455 million have been issued by insurers of the Group in favour of suppliers on behalf of the Group. These guarantees are collateralised by a cash deposit of R20 million held by the insurer, and restricted cash of R71.1 million held by the Group in bank accounts. BLT and TPC have issued guarantees of R104 million to suppliers on behalf of Group subsidiaries. In addition, the Group's banker has issued a R50 million guarantee to a Group supplier.

3.2.3 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's financial position and financial results are not affected by 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 3.5 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. In addition, interest rate swaps are used to manage the risk arising from variable interest rates (see below).

Potential effect on profit/(loss) and retained earnings*	Potential effect on profit/(loss) and retained earnings*
2023 R'000	2022 R'000
3 836	7 086

* Relates to a 25% (25 basis points) increase/decrease in the market interest rates.

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 profit or loss in relation to financial instruments with fixed interest rates if these are recognised at fair value.

Interest rate risk management strategy

TPC, a wholly owned subsidiary of the Group, has a ZAR-denominated floating rate debt instrument and is therefore exposed to variability in interest payments as a result of interest rate fluctuations. To hedge this interest rate risk, TPC took out a pay-fixed, receive-floating interest rate swap instrument. This type of hedging relationship is a cash flow hedge. Refer to note 3.7 for more details.

The Group held the following interest rate swaps as hedging instruments in cash flow hedges of interest risk:

Estimated change to profit or loss as a result of increase/decrease in market interest rates	**Maturity 2 – 5 years**
Nominal amount (R'000)	**750 000**
Fixed interest rate	**7.62%**

A reasonably possible change of 25 basis points in the interest rates at the reporting date on the interest rate swap would have increased/(decreased) equity by the following amounts:

Estimated change to profit or loss as a result of increase/decrease in market interest rates	**Equity, net of tax R'000**
25 basis points increase	**13 542**
25 basis points decrease	**(12 284)**

This sensitivity analysis assumes that all other variables remain constant.

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

3.2 Financial risk management continued

3.2.3 Market risk continued

(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. The Group has reduced its foreign currency exposure substantially in the current year due to its writing off certain USD denominated loans.

In the current year, the Group incurred a foreign exchange loss of R1.7 million (2022: R1.2 million loss) mainly as a result of the Group's USD exposure.

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 2023, 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.

Increase/(decrease) in profit or loss

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
2023				
USD:ZAR	**(15 274)**	**10***	**1 527**	**(1 527)**

* These percentages have been determined based on the average market volatility in exchange rates in the previous 12 months.

3.2.4 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 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.

3.3 Financial assets

3.3.1 Loans receivable

	2023 R'000	2022 R'000
Interest-free loans	**64 421**	52 729
Interest-bearing loans receivable	**56 728**	43 209
Less: Provision for impairment	**(16 959)**	(14 224)
	104 190	81 714
Amounts included in non-current portion of loans receivable	**65 386**	48 913
Amounts included in current portion of loans receivable	**38 804**	32 801

All loans receivable are unsecured and repayable within five years. Interest-bearing loans bear interest at a range of between prime and prime plus three percent. The fair value of the 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.

3.3.2 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. For details related to the ECLs, refer to note 3.2.1. 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:

	2023 R'000	2022 R'000
Trade receivables arising on revenue from contracts with customers	**1 668 845**	1 328 295
Banks	**110 134**	84 935
Independent and informal retail customers	**286 166**	627 908
Formal market retail customers	**315 657**	158 224
Customers in the petroleum sector	**83 441**	73 538
Receivables for starter packs	**74 680**	74 085
Cell C	**13 275**	7 580
Other cellular networks	**531 142**	122 608
Municipalities and private utilities	**254 350**	179 417
Trade receivables arising on financing transactions	**341 843**	2 571 784
Cell C	**248 524**	2 557 395
Other	**93 319**	14 389
Less: Provision for impairment	**(26 818)**	(66 343)
Net trade receivables	**1 983 870**	3 833 736
Net sundry debtors	**162 206**	219 689
Receivables from revenue recognised on fixed term contracts	**130 339**	134 036
Prepayments	**714 477**	463 841
VAT	**69 618**	92 036
	3 060 510	4 743 338

Included in trade receivables are debtors of R53 million (2022: R84 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.

CEC and Cell C entered into an agreement whereby on recapitalisation of Cell C, set-offs were performed resulting in an adjusted existing claim of R1.1 billion by CEC against Cell C. CEC accounted for the change in repayment terms as a significant modification, which resulted in the derecognition of the previous trade receivable and the recognition of a new long-term loan. Trade and other payables amounting to R872 million were set-off against trade and other receivables in line with the recapitalisation agreement. Refer to note 2.1.2 for details of the deferral loan.

Airtime purchase agreement

The amounts paid to Cell C have been treated as prepayments and not as airtime stock because, until TPC is free to sell the airtime, it does not have the associated risks and rewards of ownership. The prepayment will be tested for impairment at each reporting date and written down accordingly. The prepayment of R140 million is included above as prepayments.

Purchase of certain trade claims against Cell C

TPC accounted for the acquisition, and settlement, of the fore-mentioned claims as the purchase of airtime stock for R65 million. In respect of the last-mentioned claims acquired, TPC recognised a long-term financial asset, initially at its fair value of R53 million. Subsequently management recognised a 100% ECL against this balance taking cognisance of the unsecured nature and payment terms of the claim. The R53 million is included above as a sundry receivable.

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

3.3 Financial assets continued

3.3.2 Trade and other receivables continued

The Group's receivables from revenue recognised on fixed term contracts comprise the following movements for the year:

	2023 R'000	2022 R'000
Balance at the beginning of the year	**134 036**	54 516
Revenue recognised – handsets, tablets and other devices	**156 455**	177 130
Revenue recognised – finance revenue	**20 715**	13 247
Amounts becoming due in the period	**(180 867)**	(110 857)
Loss allowance*	**—**	—
	130 339	134 036

* The loss allowance was deemed to be insignificant.

Included in receivables from revenue recognised on fixed term contracts are amounts of R27 million (2022: R34.7 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 of 24 months.

The fair value of the trade and other receivables approximates their carrying amounts.

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.

	2023 R'000	2022 R'000
Collateralised handset financing receivables	**—**	67 355
Handset financing and subscription income sharing receivables	**2 839 181**	1 849 639
Less: Provision for impairment	**(581 979)**	(249 456)
	2 257 202	1 667 538
Amounts included in non-current portion of advances to customers	**810 252**	547 711
Amounts included in current portion of advances to customers	**1 446 950**	1 119 827

The fair value of the advances to customers approximates their carrying amounts.

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 Proprietary Limited.

3.3.4 Cash and cash equivalents

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

	2023 R'000	2022 R'000
Cash at bank	**1 302 546**	2 723 365
Cash on hand	**224**	226
	1 302 770	2 723 591
Bank overdraft	**(3)**	(63)
	1 302 767	2 723 528

Included in this balance is restricted cash of R41.3 million (2022: R45.8 million), received on behalf of and immediately due to third parties, which may not be utilised in the Group's ordinary course of business. There is further restricted cash of R71.1 million relating to collateral for guarantees issued by insurers on the Group's behalf.

3.4 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.

3.4.1 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.

	2023 R'000	2022 R'000
Trade payables	**4 330 101**	4 208 011
Accruals	**163 242**	426 920
Employee benefits	**125 516**	132 286
Sundry creditors	**674 342**	425 353
VAT	**23 539**	18 438
Payables to related parties (refer to note 8)	**319 530**	858 019
	5 636 270	6 069 027

CEC and Cell C entered into an agreement whereby on recapitalisation of Cell C, set-offs were performed resulting in an adjusted existing claim of R1.1 billion by CEC against Cell C. CEC accounted for the change in repayment terms as a significant modification, which resulted in the derecognition of the previous trade receivable and the recognition of a new long-term loan. Trade and other payables amounting to R872 million were set-off against trade and other receivables in line with the recapitalisation agreement. Refer to note 2.1.2 for details of the deferral loan.

The fair value of the trade and other payables approximates their carrying amounts.

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

3.4 Financial liabilities continued

3.4.2 Borrowings

	2023 R'000	2022 R'000
Interest-bearing borrowings	**4 070 401**	2 567 752
Non-interest-bearing borrowings	**2 719**	719
	4 073 120	2 568 471
Amounts included in non-current portion of borrowings	**1 842 765**	474 471
Amounts included in current portion of borrowings	**2 230 355**	2 094 000
Categories of borrowings:		
Airtime sale and repurchase obligations	**988 245**	—
Class A Preference Shares	**171 453**	—
Facilities	**2 902 722**	2 564 926
Other third-party borrowings	**10 700**	3 545
Total borrowings	**4 073 120**	2 568 471

	Airtime sale and repurchase obligations			Preference Share A*
	From lenders R'000	From other third parties R'000	Total R'000	R'000
Opening balance as at 1 June 2022	—	—	—	—
Long-term borrowings raised	1 146 707	217 391	1 364 098	165 966
Interest expense	276 003	31 031	307 034	12 534
Gain on modification of financial liability	—	—	—	(7 047)
Repayments	(565 391)	(117 496)	(682 887)	—
Closing balance as at 31 May 2023	857 319	130 926	988 245	171 453
Amounts included in current portion of borrowings	598 879	130 926	729 805	—
Amounts included in non-current portion of borrowings	258 440	—	258 440	171 453
Funds borrowed (R'000)	1 238 707	217 391		165 966
Transaction costs (R'000)	92 000	—		—
Effective interest rate (%)	40.4	25.75		11

* The preference dividends are indexed to 15% of the 'upside' realised by TPC on the Debt Funding to Cell C (refer to "Loans to Cell C" in note 2.1.1). The liability has been modified for the change in expectations of the future dividends payable based on the updated expectation of the future cash flows related to the Debt Funding.

TPC borrowings – from lenders and Preference Share A

The airtime sale and repurchase from lenders represents a financing transaction, with the airtime as security, together with the issue of the Class A, and Class B, Preference Shares, which provide the lenders with additional compensation for their risk. As such the amount of borrowings was attributed to these three elements at their respective fair values. Refer to note 3.5 for further details on the accounting treatment of the Class B Preference Shares.

The airtime sale and repurchase loan, and the Class A Preference Shares were recognised initially at their fair values less transaction costs and have been accounted for as financial liabilities at amortised cost. Given that the indexation of the cash flows under the Class B Preference Shares to a 5% shareholding in Cell C results in them containing an embedded derivative which would otherwise need to be stripped out and accounted for separately, the Class B Preference Shares have been designated to be financial liabilities at fair value through profit or loss.

TPC borrowings – from other third parties

The airtime sale and repurchase from third party represents a financing transaction, with the airtime as security.

The airtime sale and repurchase loan was recognised initially at its fair value less transaction costs and has been accounted for as a financial liability at amortised cost.

Credit facilities

Facility	Facility utilised 2023 R'000	2022 R'000
General banking facility – Investec	**70 722**	—
General banking facility – RMB	**32 000**	—
Revolving Facility A – Investec	**660 000**	941 584
Revolving Facility B – RMB	**240 000**	—
African Bank	**1 900 000**	1 623 342
Total borrowings	**2 902 722**	2 564 926

For terms of these facilities, refer to note 3.2.2.

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

The fair value of the borrowings approximates their carrying amounts.

Changes in liabilities arising from financing activities

	Borrowings due within one year R'000	Borrowings due after one year R'000	Total R'000
Opening balance as at 1 June 2021	1 704 374	2 778	1 707 152
Non-interest-bearing borrowings raised	—	—	—
Non-interest-bearing borrowings repaid	(270)	—	(270)
Interest-bearing borrowings raised through the acquisition of non-controlling interest	104 950	—	104 950
Interest-bearing borrowings raised	1 155 448	471 693	1 627 141
Interest accrued on interest-bearing borrowings*	183 280	—	183 280
Interest-bearing borrowings capital repaid	(870 502)	—	(870 502)
Interest-bearing borrowings interest repaid	(183 280)	—	(183 280)
Closing balance as at 31 May 2022	2 094 000	474 471	2 568 471
Acquisition of subsidiaries interest-bearing borrowings	**12 672**	**—**	**12 672**
Acquisition of subsidiaries non-interest-bearing borrowings	**2 000**	**—**	**2 000**
Movement between current and non-current	**(156 964)**	**156 964**	**—**
Loan forgiveness	**—**	**(2 778)**	**(2 778)**
Loan modification	**—**	**(7 047)**	**(7 047)**
Interest-bearing borrowings raised	**701 479**	**1 207 966**	**1 909 445**
Interest accrued on interest-bearing borrowings*	**630 221**	**13 189**	**643 410**
Interest-bearing borrowings capital repaid	**(422 832)**	**—**	**(422 832)**
Interest-bearing borrowings interest repaid	**(630 221)**	**—**	**(630 221)**
Closing balance as at 31 May 2023	**2 230 355**	**1 842 765**	**4 073 120**

* Of the total interest accrued on interest-bearing borrowings, Rnil (2022: R17 million) is accounted for as finance costs incurred in the generation of revenue on the Group income statement. The balance is accounted for in finance costs on the Group income statement.

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

3.5 Financial instruments at fair value through profit or loss

Changes in the instruments are as follows:

	Surety loan receivable R'000	Loans receivable carried at fair value R'000	SPV5 derivative liability R'000	Class B Preference Shares R'000	Derivative liability R'000	Other R'000	Total R'000
Balance as at 1 June 2021	83 713	126 604			(68 178)	8 258	150 397
Additions	—	49 524	—	—	—	(200)	49 324
Repayments	—	(3 003)	—	—	—	(8 822)	(11 825)
Derecognition on termination recognised in profit or loss	—	—	—	—	68 178	—	68 178
Recognition of new instrument recognised in profit or loss	—	—	—	—	(22 000)	—	(22 000)
Fair value gain recognised in profit or loss	12 859	4 208	—	—	—	564	17 631
Other movements	—	(126 604)	—	—	—	—	(126 604)
Balance as at 31 May 2022	**96 572**	**50 729**	**—**	**—**	**(22 000)**	**(200)**	**125 101**
Additions	**—**	**—**	**—**	**(66 859)**	**—**	**—**	**(66 859)**
Repayments	**—**	**(13 540)**	**—**	**—**	**—**	**—**	**(13 540)**
Derecognition on termination recognised in profit or loss	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Recognition of new instrument recognised in profit or loss	**—**	**—**	**(13 214)**	**—**	**—**	**—**	**(13 214)**
Fair value gain recognised in profit or loss	**32 743**	**9 412**	**2 164**	**16 085**	**22 000**	**86**	**82 490**
Other movements	**—**	**(1 737)**	**—**	**—**	**—**	**114**	**(1 623)**
Balance as at 31 May 2023	**129 315**	**44 864**	**(11 050)**	**(50 774)**	**—**	**—**	**112 355**
Financial assets at fair value through profit or loss – included in current assets	**16 164**	**44 864**	**—**	**—**	**—**	**—**	**61 028**
Financial assets at fair value through profit or loss – included in non-current assets	**113 151**	**—**	**—**	**—**	**—**	**—**	**113 151**
Financial liabilities at fair value through profit or loss – included in non-current liabilities	**—**	**—**	**(11 050)**	**(50 774)**	**—**		**(61 824)**
	129 315	**44 864**	**(11 050)**	**(50 774)**	**—**	**—**	**112 355**
Unrealised gains/(losses)	**32 743**	**9 412**	**(11 050)**	**16 085**	**—**	**—**	**47 190**

Surety loans receivable

Surety loans relate to the personal sureties that B Levy and M Levy signed for the US dollar denominated 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). In November 2021 the payment terms for the surety loans were renegotiated, with the payments being agreed as instalments payable annually commencing on 30 September 2023 and ending on 30 September 2030.

Loans at fair value

As part of the fraud recoupment, the Group received the right to a loan, amounting to R73 million, advanced to a third party. The loan bears interest at prime overdraft rate and is repayable by 30 June 2026. Interest was payable up to 30 June 2022 and thereafter interest and capital are payable. In addition to the interest payments required, the borrower had the right to pay R10 million capital by 1 July 2022 in return for a R4.2 million discount in the capital amount of the loan. It is the Group's view that this right results in the contractual cash flows failing to meet the requirements for amortised cost accounting, causing the loan to be measured at fair value through profit or loss. This right was not exercised. The fair value of the loan reflected a market-related interest rate of prime plus 5% and credit risk-adjusted expected cash flows. Prior to year-end, a settlement agreement was signed, stipulating the final payment due and payable. These terms were incorporated into the year-end valuation of the loan receivable.

SPV5 derivative liability

A debt owing to a lessor by Cell C was transferred into a new special purpose vehicle (SPV5) in exchange for a 10% shareholding in Cell C (being the only asset of the SPV). Refer to note 2.1.1.

When the funds are advanced by TPC to SPV5 they will be treated as an additional 10% investment (without voting rights) in Cell C because the shares in Cell C are the only means that the SPV has with which to repay TPC's loan. As a result, TPC's loan commitment is an in-substance written put option over the economic interest of SPV5's shareholding in Cell C, which meets the definition of a derivative. Accordingly, TPC has accounted for its loan commitment to SPV5 as a derivative at fair value through profit or loss. The derivative is initially recognised by the Group at fair value and subsequently measured at fair value through profit or loss.

	SPV5 derivative liability R'000
Funds borrowed (R'000)	—
Transaction costs (R'000)	—
Effective interest rate (%)	**N/A**
Value at 31 May 2023 (R'000)	**11 050**

Class B Preference Shares

TPC issued Class B Preference Shares to the funders for a nominal issue price. Refer to note 2.1.1.

Given that the indexation of the cash flows under the Class B Preference Shares to a 5% shareholding in Cell C results in them containing an embedded derivative which would otherwise need to be stripped out and accounted for separately, the Class B Preference Shares have been designated to be financial liabilities at fair value through profit or loss. The preference shares are initially recognised by the Group at fair value and subsequently measured at fair value through profit or loss.

	Class B Preference Shares R'000
Funds borrowed (R'000)	**66 859**
Transaction costs (R'000)	—
Effective interest rate (%)	**N/A**
Value at 31 May 2023 (R'000)	**50 774**

Derivative liability

On 15 December 2021, BLT concluded a put option agreement with Digital Ecosystems Proprietary Limited (DE), formerly Blue Label Mobile Proprietary Limited, in terms of which DE acquired the right to put up to 40% of the shares in Airvantage to BLT no earlier than 15 December 2022 for a maximum amount of R110 million. If Cell C Limited, through a Board resolution, passes a solvency and liquidity test prior to 15 December 2022, the put option will be terminated.

On 26 August 2022, in anticipation of the Cell C recapitalisation, the put obligation was terminated by DE.

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

3.6 Fair value measurement

Classes and categories of financial instruments and their fair values

The following table combines information about:

- Classes of financial instruments based on their nature and characteristics;
- The carrying amounts of financial instruments;
- Fair values of financial instruments (except financial instruments when carrying amount approximates their fair value); and
- Fair value hierarchy levels of financial assets and financial liabilities for which fair value was disclosed.

		Financial assets		Financial liabilities		Fair value level		
	Notes	FVTPL – mandatorily measured R'000	Amortised cost R'000	FVTPL – mandatorily measured R'000	Amortised cost R'000	1	2	3
Deferral loan	2.1.2		912 938					
Debt funding	2.1.2		1 063 213					
Reinvestment instrument	2.1.2		134 831					
Other loans receivable	3.3.1		148 255					
Airtime sale and repurchase loan	3.4.2				988 245			
Class A Preference Shares	3.4.2				171 453			
Other borrowings	3.4.2				2 913 422			
Surety loan receivable	3.5	129 315						129 315
Loans receivable	3.5	44 864						44 864
Class B Preference Shares	3.5			50 774				50 774
SPV5 derivative liability	3.5			11 050				11 050

	SPV5 derivative liability R'000	Class B Preference Shares R'000
Funds borrowed	—	66 859
Transaction costs	—	—
Effective interest rate (%)	N/A	N/A
Value at 31 May 2023	**11 050**	**50 774**

The gain arising from the change in fair value has been included in profit or loss for the period.

Fair value of the Company's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Company's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined.

Financial asset/liability	Valuation technique applied	Significant unobservable inputs	Range of unobservable inputs applied
Preference Share B	Discounting of cash flow after taking into account credit risk of Cell C	Probability of default of Cell C	10.11% – 12.35% PD range
SPV5 derivative liability	Discounting of cash flow after taking into account credit risk of Cell C	Probability of default of Cell C	5% – 61.94% LGD range

Reconciliation of Level 3 fair value measurements of financial instruments

	SPV5 Derivative Liability R'000	Class B Preference Shares R'000	Total R'000
Balance at 1 June 2022	—	—	—
Advances	13 214	66 859	80 073
Total gains recognised	(2 164)	(16 085)	(18 249)
– in profit or loss	(2 164)	(16 085)	(18 249)
– in other comprehensive income	—	—	—
Transfers out of level 3	—	—	—
Transfers into level 3	—	—	—
Balance at 31 May 2023	11 050	50 774	61 824

Sensitivity analysis of valuations using unobservable inputs

Significant unobservable parameter	Positive/(negative) variance applied to parameters
Probability of default of Cell C	10/(10)%
Loss given default of Cell C	10/(10)%

A significant parameter has been deemed to be one which may result in a charge to profit or loss, or a change in the fair value of the asset or liability by more than 10% of the underlying value of the affected item.

This is demonstrated by the following sensitivity analysis which includes reasonable range of possible outcomes:

Financial instrument	Significant unobservable parameter	Potential effect on profit or loss and equity
Preference Share B	Valuation of Cell C remains unchanged, Probability of default stressed by 10%	5 508 – 7 417
SPV5 derivative liability	Loss given default stressed by 10%	(923) – 923

Credit risk of financial instruments designated at fair value

The following table represents the maximum exposure to credit risk of financial liabilities linked to the credit risk of another counterparty:

	Counterparty credit risk exposure	Maximum exposure to credit risk
Preference Share A	Cell C	171 453

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

3.7 Hedge accounting

The Group designates certain derivatives as hedging instruments in respect of foreign currency risk and interest rate risk in fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of cash flow hedging reserve, limited to the cumulative change in fair value of the hedged item from inception of the hedge. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in finance costs.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item.

However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are removed from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability. This transfer does not affect other comprehensive income. Furthermore, if the Group expects that some or all of the loss accumulated in the cash flow hedging reserve will not be recovered in the future, that amount is immediately reclassified to profit or loss.

The Group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. Any gain or loss recognised in other comprehensive income and accumulated in cash flow hedge reserve at that time remains in equity and is reclassified to profit or loss when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in the cash flow hedge reserve is reclassified immediately to profit or loss.

On 7 October 2020, TPC entered into an interest rate swap agreement in respect of its variable rate facility agreement in order to hedge its interest rate risk (refer to note 3.2.3 for more detail). By using derivative financial instruments to hedge exposures to changes in interest rates, TPC also exposes itself to credit risk of the derivative counterparty, which is not offset by the hedged item. TPC minimises counterparty credit risk in derivative instruments by entering into transactions with high-quality counterparties.

At inception of each hedge, it was determined that the effects of credit risk are not expected to dominate the value changes arising from the hedging relationship as all relevant metrics to demonstrate the existence of an economic relationship have been satisfied.

	Interest rate swap	
	2023 R'000	2022 R'000
Opening balance	**20 224**	6 915
Change in value of the hedging instrument recognised in other comprehensive income	**8 693**	10 262
Interest settlements	**(16 003)**	3 047
Closing balance	**12 914**	20 224
Amounts included in non-current portion of financial assets at fair value through other comprehensive income	**—**	8 536
Amounts included in current portion of financial assets at fair value through other comprehensive income	**12 914**	11 688

3.8 Leases

The Group leases various offices and warehouses. Rental contracts are typically concluded for fixed periods of one to five 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 as applicable:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments 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.

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.

The fair value of the lease liabilities approximates their carrying amounts.

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

3.8 Leases continued

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.

	Retail space R'000	Office space R'000	Warehouse space R'000	Total R'000
Lease liabilities				
Year ended 31 May 2023				
Opening balance	**—**	**44 931**	**1 951**	**46 882**
Increase in liabilities	**—**	**24 409**	**—**	**24 409**
Interest expense	**—**	**3 725**	**90**	**3 815**
Repayments	**—**	**(40 482)**	**(1 550)**	**(42 032)**
Lease modifications		**(373)**	**—**	**(373)**
Closing balance	**—**	**32 210**	**491**	**32 701**
Included in non-current liabilities	**—**	**23 462**	**—**	**23 462**
Included in current liabilities	**—**	**8 748**	**491**	**9 239**
Year ended 31 May 2022				
Opening balance	1 000	71 438	687	73 125
Increase in liabilities	—	4 155	2 706	6 861
Interest expense	—	5 722	137	5 859
Repayments	—	(36 278)	(1 579)	(37 857)
Lease modifications	(1 000)	(106)	—	(1 106)
Closing balance	—	44 931	1 951	46 882
Included in non-current liabilities	—	9 008	490	9 498
Included in current liabilities	—	35 923	1 461	37 384

4. NON-FINANCIAL INSTRUMENTS

Non-financial instruments comprise:

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

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. 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 the 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.

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.

	2023 R'000	2022 R'000
Year ended 31 May		
Opening carrying amount	**681 754**	681 754
Acquisition of subsidiaries	**35 721**	—
Closing carrying amount	**717 475**	681 754
At 31 May		
Cost	**1 113 173**	1 077 452
Accumulated impairments	**(395 698)**	(395 698)
Carrying amount	**717 475**	681 754

4. NON-FINANCIAL INSTRUMENTS continued

4.1 Goodwill continued

Critical accounting estimates and assumptions continued

The carrying amount of goodwill and intangible assets is reduced to their recoverable amounts through recognition of an impairment loss when required.

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

	2023 R'000	2022 R'000
Aligned Partnered Solutions Proprietary Limited*	**4 091**	—
Blue Label Distribution Proprietary Limited	**36 364**	36 364
CEC Proprietary Limited	**335 468**	335 468
Datacel Group	**79 854**	79 854
Glocell Distribution Proprietary Limited	**161 697**	161 697
Heroticket Proprietary Limited	**511**	511
Lipa Payments Proprietary Limited*	**31 630**	—
The Prepaid Company Proprietary Limited	**62 113**	62 113
TicketPros Proprietary Limited	**5 104**	5 104
Visual Revenue Management Proprietary Limited	**643**	643
	717 475	681 754

* The Group acquired 50% of Aligned Partnered Solutions Proprietary Limited's share capital on 31 March 2023. The Group further acquired 60% of Lipa Payments Proprietary Limited's share capital on 24 April 2023.

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.

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

	2023			2022		
	Average EBITDA margin %	Terminal growth rate %	Pre-tax discount rate %	Average EBITDA margin %	Terminal growth rate %	Pre-tax discount rate %
Blue Label Distribution Proprietary Limited	**4.3**	**4.5**	**22.1**	4.9	4.5	20.3
CEC Proprietary Limited	**22.5**	*****	**19.6**[1]	25.4	*	26.9
Datacel Group	**16.7**	**4.5**	**26.3**	10.7	4.5	22.9
Glocell Distribution Proprietary Limited	**40.5**	**4.5**	**20.6**	36.1	4.5	21.8
The Prepaid Company Proprietary Limited	**2.1**	**4.5**	**22.1**[2]	3.7	4.5	15.9

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

[1] The decrease in the pre-tax discount rate of 7.3% was attributable to a change in valuation methodology from free cash flow to equity, to free cash flow to firm which aligns to the business model of CEC.

[2] The increase in the pre-tax discount rate of 6.2% was attributable to a higher specific risk being applied to take into account the risk associated with Cell C cash flows.

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.

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 annual increase in subscription base Units	Decrease in annual EBITDA %	Decrease in terminal growth rate R'000	Excess over carrying value R'000
CEC Proprietary Limited	3.7	37 020	11.7	n/a	467 228 441
Glocell Distribution Proprietary Limited	3.1	n/a	18.5	4.5	37 977 571

The goodwill balances did not result in impairment charges for the year when compared to recoverable amounts (2022: Rnil).

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.

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 of up to 13 years.

(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 and impairment. 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.

4. NON-FINANCIAL INSTRUMENTS continued

4.2 Intangible assets continued

(d) Purchased starter pack bases and postpaid bases

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

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

(e) Subscription income sharing arrangement

During the 2021 financial year, the Group, through its subsidiary CEC, entered into an arrangement with Cell C to facilitate Cell C's operation of its postpaid mobile telecommunication business. The agreement commenced on 1 November 2020 for an initial period of five years, with the Group having the right to renew for a further four years. Upon expiration of the renewal period, Cell C has the right to terminate the arrangement for a fee, failing which the Group has the right to acquire the new subscriber base, or to nominate a third party to acquire it, for a fee.

The Group is entitled to receive a share of the subscription income generated by Cell C from a subset of postpaid subscribers that sign up, extend or upgrade their subscriptions with Cell C after 1 November 2020 (New and Upgrade subscribers), plus certain fixed and variable payments. Cell C will remain entitled to the subscription income of existing subscribers at 31 October 2020 (Existing subscribers) for the remainder of the subscribers' contract and a share of the ongoing revenue of New and Upgrade subscribers. The income that CEC earns under the arrangement is primarily not as compensation for services provided, but rather as a result of the income stream that it has acquired. The Group and Cell C have outsourced the operation of the postpaid base to Vodacom as part of this arrangement. In return, the Group has undertaken to bear the operating costs in respect of Cell C's postpaid subscriber business for the duration of the arrangement. The operating costs of the postpaid base borne by the Group that are not associated with the New and Upgrade subscribers, are recognised as the cost of obtaining the subscription income sharing arrangement. The Group has selected the cost accumulation model to capitalise these costs to the intangible asset as and when they are incurred, net of the variable payments from Cell C, which are considered to be Cell C's contribution towards those operating costs. All associated costs have been capitalised to intangible assets and as such the costs are fixed. The monthly capitalisation rate is determined by calculating the proportion of the monthly subscription revenue attributable to Cell C from existing subscribers at 31 October 2020 compared to the total monthly revenue arising from Cell C's postpaid subscriber base. The subscription income sharing arrangement is carried at cost less accumulated amortisation and accumulated impairment. Amortisation is calculated using the straight-line method over the life of the arrangement, which is expected to be nine years. The operating costs of the postpaid base borne by the Group that are associated with the New and Upgrade subscribers are accounted for as and when they are incurred, and reduce the amount recognised as revenue (refer to note 1.2) as the Group is already receiving its share of the subscription income from these New and Upgrade subscribers.

(f) Subscriber acquisition costs

Under the subscription income sharing arrangement with Cell C, the Group has agreed to bear the commissions that Cell C pays to third parties involved in signing up or upgrading the particular Cell C postpaid subscribers, from 1 November 2020, from which the Group benefits. Since these costs are incremental costs that would otherwise not have been incurred had the particular subscribers not signed up with Cell C, and because they are costs borne by the Group in order to share in the subscription income generated by Cell C from these subscribers, these costs are capitalised by the Group, when incurred by Cell C, and amortised over the expected life of the related subscriber contracts between Cell C and the subscribers, which is anticipated to be up to 36 months.

Critical accounting estimates and assumptions

Subscription income sharing arrangement

Management applied significant judgement in determining the appropriate accounting treatment for the subscription income sharing arrangement with Cell C. Since the substance of the agreement with Cell C is that of a right to a future net income stream, not to fund Cell C, management considered whether this right should be accounted for as a financial asset or as an intangible asset. Although the Group has a contractual right to receive (net) cash flows from Cell C, these (net) cash flows only originate from Cell C as and when it provides mobile telecommunication services to the particular postpaid subscribers that sign up, extend or upgrade their subscriptions with Cell C after 1 November 2020 (New and Upgrade postpaid subscribers). Thus, Cell C does not have an unconditional obligation to make these payments to the Group before it has a contractual right to receive such payments from these subscribers, which means that Cell C does not have a financial liability at the commencement of the arrangement with the Group. In order for one party, the Group, to have a financial asset, another party, Cell C, must have a financial liability. In addition, the Group is undertaking activities, such as marketing, aimed at increasing the economic benefits to be derived from the arrangement with Cell C. Accordingly, management believed that the Group's right to future cash flows under the arrangement was not a financial asset, but rather an intangible asset. Significant judgement was also applied in determining the cost of obtaining the right to the future net income stream. Since the Group is prepared to bear Cell C's costs that do not relate to the income generated by Cell C from the New and Upgrade postpaid subscribers from which the Group benefits, it was determined that such costs constitute the cost of obtaining the subscription income sharing arrangement.

Furthermore, since the variable payments from Cell C also do not relate to the aforementioned New and Upgrade postpaid subscribers, it was determined that these payments represent Cell C's contribution towards its costs borne by the Group, and that the cost of the intangible asset should be measured net of these payments, rather than recognising these payments as revenue. The Group's share of the subscription income, net of the related operating costs borne by the Group, from the New and Upgrade postpaid subscribers, is recognised as revenue (refer to note 1.2).

The intangible asset forms part of the assets of CEC and a value-in-use calculation was performed on CEC at 31 May 2023 and no impairment was required, refer to note 4.1.

Estimated useful lives and residual values

The relative size of the Group's subscription income sharing arrangement, subscriber acquisition costs, purchased starter pack bases and postpaid starter pack bases makes the judgements surrounding their 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 for purposes of measuring the related amortisation, including for the subscription income sharing arrangement which may have a value at the end of its estimated life of nine years, since Cell C would be required to buy back the Group's right if Cell C elects to terminate the arrangement at that point. The estimated useful life of nine years is based on management's estimate that after the initial five-year period, the Group will renew for a further four years. The buy back price is based on a formula that takes account of Cell C's income from the related postpaid subscriber base in the future, which is highly uncertain, and there is the possibility that Cell C does not buy back the Group's right, but that the Group buys the subscriber base from Cell C. Accordingly, given the significant uncertainty surrounding the future value of the subscription income sharing arrangement, management has assumed a residual value of zero.

4. NON-FINANCIAL INSTRUMENTS continued

4.2 Intangible assets continued

Estimated useful lives and residual values continued

	Distri-bution agreement R'000	Customer relation-ships R'000	Computer software R'000	Internally generated software develop-ment R'000	Purchased starter pack bases and postpaid bases R'000	Subscription income sharing arrangement R'000	Subscriber acquisition costs R'000	Total R'000
Year ended 31 May 2023								
Opening carrying amount	**252 895**	**4 938**	**19 902**	**45 262**	**53 962**	**1 104 436**	**184 154**	**1 665 549**
Additions	**—**	**—**	**7 661**	**77 593**	**—**	**117 528**	**152 660**	**355 442**
Acquisition of subsidiaries	**—**	**—**	**8 301**	**243**	**—**	**—**	**—**	**8 544**
Disposals	**—**	**—**	**(4)**	**—**	**—**	**—**	**—**	**(4)**
Amortisation charge	**(45 554)**	**(4 558)**	**(9 018)**	**(15 908)**	**(20 690)***	**(162 941)***	**(187 631)***	**(446 300)**
Closing carrying amount	**207 341**	**380**	**26 842**	**107 190**	**33 272**	**1 059 023**	**149 183**	**1 583 231**
At 31 May 2023								
Cost	**557 056**	**120 556**	**150 244**	**194 694**	**356 557**	**1 355 788**	**475 865**	**3 210 760**
Accumulated amortisation	**(349 715)**	**(120 176)**	**(123 402)**	**(87 504)**	**(323 285)**	**(296 765)**	**(326 682)**	**(1 627 529)**
Carrying amount	**207 341**	**380**	**26 842**	**107 190**	**33 272**	**1 059 023**	**149 183**	**1 583 231**
Year ended 31 May 2022								
Opening carrying amount	300 927	9 496	17 991	34 767	70 453	526 140	91 853	1 051 627
Additions	—	—	14 233	22 004	10 638	692 877	212 285	952 037
Amortisation charge	(48 032)	(4 558)	(12 322)	(11 509)	(27 129)*	(114 581)*	(119 984)*	(338 115)
Closing carrying amount	252 895	4 938	19 902	45 262	53 962	1 104 436	184 154	1 665 549
At 31 May 2022								
Cost	557 056	120 555	134 929	143 873	356 557	1 238 259	323 204	2 874 433
Accumulated amortisation	(304 161)	(115 617)	(115 027)	(98 611)	(302 595)	(133 823)	(139 050)	(1 208 884)
Carrying amount	252 895	4 938	19 902	45 262	53 962	1 104 436	184 154	1 665 549

* Included in the amortisation charge is an amount of R371.3 million (2022: R261.7 million) in respect of the purchased starter pack bases and postpaid bases, subscription income sharing arrangement and subscriber acquisition costs, which is charged to the direct operating costs line in the income statement.

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 profit and loss 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%
Media equipment	10% – 20%
Furniture, fittings and office equipment	16.67% – 25%
Motor vehicles	20% – 25%
Terminals and vending machines	16.67% – 33.3%
Buildings	8.33%

Major leasehold improvements are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

	Computer equipment R'000	Media equipment* R'000	Furniture, fittings and office equipment R'000	Motor vehicles R'000	Leasehold improve-ments R'000	Terminals and vending machines** R'000	Land and buildings R'000	Total R'000
Year ended 31 May 2023								
Opening carrying amount	**34 640**	**7 931**	**11 024**	**27 887**	**8 033**	**101 699**	**4 099**	**195 313**
Additions	**10 541**	**16 176**	**6 075**	**14 079**	**10 536**	**61 760**	**—**	**119 167**
Acquisition of subsidiary	**404**	**—**	**14**	**—**	**—**	**—**	**—**	**418**
Disposals	**(86)**	**—**	**(57)**	**(2 214)**	**—**	**(2 594)**	**(976)**	**(5 927)**
Depreciation charge	**(18 268)**	**(1 621)**	**(4 631)**	**(9 803)**	**(5 188)**	**(32 953)**	**—**	**(72 464)**
Impairments***	**—**	**—**	**(18)**	**—**	**—**	**(12 127)**	**—**	**(12 145)**
Closing carrying amount	**27 231**	**22 486**	**12 407**	**29 949**	**13 381**	**115 785**	**3 123**	**224 362**
At 31 May 2023								
Cost	**83 333**	**30 107**	**35 226**	**51 641**	**70 625**	**235 180**	**3 123**	**509 235**
Accumulated depreciation	**(56 102)**	**(7 621)**	**(22 819)**	**(21 692)**	**(57 244)**	**(110 077)**	**—**	**(275 555)**
Accumulated impairments	**—**	**—**	**—**	**—**	**—**	**(9 318)**	**—**	**(9 318)**
Carrying amount	**27 231**	**22 486**	**12 407**	**29 949**	**13 381**	**115 785**	**3 123**	**224 362**
Year ended 31 May 2022								
Opening carrying amount	43 972	9 798	11 504	16 456	11 994	96 371	4 099	194 194
Additions	10 550	—	3 746	20 163	1 108	42 246	—	77 813
Disposals	(608)	(473)	(76)	(2 290)	(657)	(4 307)	—	(8 411)
Depreciation charge	(19 274)	(1 394)	(4 150)	(6 442)	(4 412)	(29 031)	—	(64 703)
Impairments***	—	—	—	—	—	(3 580)	—	(3 580)
Closing carrying amount	34 640	7 931	11 024	27 887	8 033	101 699	4 099	195 313
At 31 May 2022								
Cost	88 588	13 930	21 899	43 643	52 700	206 702	4 099	431 561
Accumulated depreciation	(53 948)	(5 999)	(10 875)	(15 756)	(44 667)	(98 032)	—	(229 277)
Accumulated impairments	—	—	—	—	—	(6 971)	—	(6 971)
Carrying amount	34 640	7 931	11 024	27 887	8 033	101 699	4 099	195 313

* In order to achieve enhanced disclosure, media equipment has been disaggregated from computer equipment. Comparative results have been updated accordingly.

** In order to achieve enhanced disclosure, equipment closer in nature to terminals and vending machines has been disaggregated from computer equipment. Comparative results have been updated accordingly.

*** Impairments of property, plant and equipment are included in depreciation and amortisation in profit or loss.

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.

4. NON-FINANCIAL INSTRUMENTS continued

4.4 Right-of-use assets

Right-of-use assets are recognised at the date at which the leased asset is available for use by the Group. 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.

Right-of-use assets are measured at cost comprising the following:
- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

	Office space R'000	Warehouse space R'000	Total R'000
Lease assets			
Year ended 31 May 2023			
Opening balance	**34 400**	**1 866**	**36 266**
Additions	**19 391**	**—**	**19 391**
Depreciation	**(29 378)**	**(1 415)**	**(30 793)**
Lease modifications	**(287)**	**—**	**(287)**
Closing balance	**24 126**	**451**	**24 577**
Year ended 31 May 2022			
Opening balance	58 143	603	58 746
Additions	4 155	2 706	6 861
Depreciation	(27 898)	(1 443)	(29 341)
Closing balance	34 400	1 866	36 266

4.5 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.

	2023 R'000	2022 R'000
Finished goods		
Prepaid airtime	**2 279 104**	1 004 417
Handsets	**396 472**	56 117
Other*	**159 338**	82 838
	2 834 914	1 143 372

* Other inventory mainly consists of accessories, starter packs, consumables and gym equipment.

Inventories with a cost of R15.4 billion (2022: R14.9 billion) were sold during the year and have been charged to profit or loss.

Included in the above balances are provisions for obsolete, unusable and unsalable inventory and for latent damage to the value of R0.3 million (2022: R1.3 million).

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 prepaid airtime on utilisation by the customer.

Restricted inventory

Refer to note 2.1.1 for the details on restricted stock.

4.6 Deferred revenue

Deferred revenue represents a prepayment by customers for goods or services that are yet to be delivered.

Deferred revenue is recognised as earned revenue as the good or service is delivered to the customer which is expected to occur within the next reporting period and therefore is disclosed as current.

	2023 R'000	2022 R'000
At 31 May 2023 – current/non-current split	**87 434**	113 367
Amounts included in non-current portion of deferred revenue	**—**	—
Amounts included in current portion of deferred revenue	**87 434**	113 367
At 31 May 2023 – by category	**87 434**	113 367
Ringas	**84 510**	101 842
Other	**2 924**	11 525
Ringas[1]		
Opening balance	**101 843**	59 488
Amounts paid to network providers and commission revenue recognised in the current year relating to unredeemed Ringas voucher sales in prior years	**(84 208)**	(48 409)
Gross sales of unredeemed Ringas vouchers in the current year	**66 875**	90 763
Closing balance	**84 510**	101 842
Other		
Opening balance	**11 484**	18 243
Revenue recognised during the year relating to prior years	**(10 367)**	(17 971)
Additions	**1 807**	11 253
Closing balance	**2 924**	11 525

[1] Ringas vouchers are PINless vouchers and are therefore recognised as agent. Ringas vouchers are universal, single use, prepaid airtime vouchers that allow you to top-up your number with any of the four major South African mobile networks. The balance of the vouchers becomes payable to the network providers with a portion being recognised as commission revenue once the Ringas vouchers are redeemed.

5. EMPLOYEES

5.1 Equity compensation benefit

During the year, 7 985 185 (2022: 8 717 136) 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 during the current or prior year.

5. EMPLOYEES continued

5.1 Equity compensation benefit continued

The performance conditions as at 31 May 2023 for the thirteenth and fourteenth award grants, vesting on 31 August 2023 and 31 August 2024 respectively, and for the twelfth award grant that vested on 31 August 2022 are as follows:

		Group long-term incentive (LTI) metrics*		
		Threshold	Target	Stretch
Core HEPS (30%)	Group	CPI + 5%	CPI + 10%	CPI + 15%
(compounded cumulatively over three years)	Vesting %	21.6%	30.0%	42.0%
Total shareholder return (TSR) (30%) (performance against JSE Capped All Share Index)	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)
	Vesting %	21.6%	30.0%	42.0%
Return on capital employed (ROCE)** (20%)	Group	ROCE greater than or equal to WACC over three years	ROCE greater than or equal to WACC +2.5% over three years	ROCE greater than or equal to WACC +5% over three years
(compared to weighted average cost of capital (WACC) over the three-year period not compounded)	Vesting %	14.4%	20.0%	28.0%
Environmental, social and governance (ESG) (20%)	Group	Specific ESGs selected	Specific ESGs selected	Specific ESGs selected
(specific ESG metrics)	Vesting %	14.4%	20.0%	28.0%

* Remco may review metrics and targets post-FY2023 for new awards to ensure that they are relevant. 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)/Capital employed. Capital employed = total assets – current liabilities (excluding interest-bearing borrowings).

The Remuneration Committee will review any prior year impairments to assess if adverse outcomes have occurred, and if so, make the necessary adjustments to the capital employed number such that the average performance is a more accurate indication to shareholders over the measurement period.

The performance conditions as at 31 May 2023 for the fifteenth award grant vesting on 31 August 2025 are as follows:

		Group long-term incentive (LTI) metrics*		
		Threshold	Target	Stretch
Core HEPS (30%)	Group	80% of target	CPI + 7.5%**	125% of target
(compounded cumulatively over three years)	Payout %	21.6%	30.0%	45.0%
Total shareholder return (TSR) (30%) (performance against long bond compounded over three years plus spread)	Group	80% of target	Performance equal to three to five-year SARB nominal long bond rate +7.5%***	125% of target
	Payout %	21.60%	30.0%	45.0%
Return on capital employed (ROCE)**** (20%) (compared to WACC over the three-year period not compounded)	Group	ROCE greater than or equal to WACC over three years	ROCE greater than or equal to WACC +2.5% over three years	ROCE greater than or equal to WACC +5% over three years
	Payout %	14.40%	20.0%	30.0%
Environmental, social and governance (ESG) (20%)	Group	Pro rata of target	Specific	No stretch
(specific ESG metrics*****)	Payout %	14.40%	20.0%	20.0%

* Remco may review metrics and targets post-FY2023 for new awards to ensure that they are relevant. The LTIP is calculated per metric. Values awarded will be a weighted average of scores attained versus target. All metrics will be assessed and vest on a pro rata basis applying linear interpolation basis, save for the ESG metric which will be assessed on a binary basis.

** The rationale for using a spread above CPI of 7.5%, which is lower than the spread being applied for the STIP, is that the LTIP is assessed on a forward looking three-year basis while the STIP only looks to performance in the next 12 months.

*** In setting the TSR target, consideration was given to utilise a risk-free rate that is aligned with a typical vesting and performance period of the award, consequently a 3-5 SARB nominal long bond rate was applied as the anchor in setting TSR targets, with an appropriate spread applied to this anchor in order to set realistic but stretching targets. In addition, TSR will be assessed based on growth in market cap as well as dividends distributed to shareholders over the performance period.

**** ROCE is calculated using the following formula:

ROCE = Net operating profit (EBIT)/Capital employed. Capital employed = total assets – current liabilities (excluding interest-bearing borrowings). The Remuneration Committee will review any prior year impairments to assess if adverse outcomes have occurred, and if so, make the necessary adjustments to the capital employed number such that the average performance is a more accurate indication to shareholders over the measurement period.

*****Remco removed the stretch component of the ESG KPIs in the LTIP as these measures are assessed on a binary basis and only provide for the achievement of target performance, with threshold performance being assessed on a pro rata basis relative to target.

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 2021			34 291 029	114 692
10th award			3 871 851	27 722
11th award			15 956 835	40 691
12th award			14 462 343	46 279
Granted during the year			8 717 136	55 964
14th award	6 April 2022	31 August 2024	8 717 136	55 964
Shares forfeited during the year			(5 245 249)	(25 594)
11th award			(2 419 789)	(17 326)
12th award			(1 190 058)	(3 035)
13th award			(1 635 402)	(5 233)
Shares vested during the year			(1 452 062)	(10 396)
11th award		16 March 2022	(1 452 062)	(10 396)
At 31 May 2022			**36 310 854**	**134 666**
12th award			**14 766 777**	**37 656**
13th award			**12 826 941**	**41 046**
14th award			**8 717 136**	**55 964**
Granted during the year			**7 985 185**	**49 907**
15th award	**1 September 2022**	**31 August 2025**	**7 985 185**	**49 907**
Awarded during the year – achievement of stretch targets			**1 997 945**	**5 094**
12th award			**1 997 945**	**5 094**
Shares forfeited during the year			**(2 282 379)**	**(10 764)**
12th award			**—**	**—**
13th award			**(1 207 545)**	**(3 864)**
14th award			**(1 074 834)**	**(6 900)**
Shares vested during the year			**(16 764 722)**	**(42 750)**
12th award		**31 August 2022**	**(16 764 722)**	**(42 750)**
At 31 May 2023			**27 246 883**	**136 153**
13th award			**11 619 396**	**37 182**
14th award			**7 642 302**	**49 064**
15th award			**7 985 185**	**49 907**

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 2 213 125 (2022: 2 032 567).

The share-based payment expense in relation to these Executive Directors is R23.8 million (2022: R11.2 million). Refer to note 5.3 for details of awards per Director.

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 up to 100%. Senior Management may earn up to 75% of their annualised fixed salary package.

	2023 R'000	2022 R'000
Salaries and wages	**750 357**	616 227
Bonuses	**140 795**	130 180
Equity compensation benefit	**40 012**	32 278
Other	**14 337**	1 570
	945 501	780 255

Average number of employees for the year is 1 412 (2022: 1 557).

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	Services as Directors of subsidiaries of Blue Label Telecoms Limited R'000
FOR THE YEAR ENDED 31 MAY 2023				
Executive Directors				
BM Levy	—	—	—	—
MS Levy	—	—	—	—
DA Suntup	—	—	—	—
	—	—	—	—
Non-Executive Directors				
LM Nestadt	**2 323**	—	**2 323**	—
KM Ellerine	**720**	—	**720**	—
GD Harlow	**511**	—	**511**	**211**
JS Mthimunye	**1 206**	—	**1 206**	**68**
SJ Vilakazi	**1 102**	—	**1 102**	—
PL Zim	**469**	—	**469**	**45**
NP Mnxasana	**739**	—	**739**	**21**
LE Mthimunye	**632**	—	**632**	—
	7 702	—	**7 702**	**345**
	7 702	—	**7 702**	**345**
Prescribed officers				
GB Levin	—	—	—	—
JS Newman	—	—	—	—
	—	—	—	—
	7 702	—	**7 702**	**345**
FOR THE YEAR ENDED 31 MAY 2022				
Executive Directors				
BM Levy	—	—	—	—
MS Levy	—	—	—	—
DA Suntup	—	—	—	—
	—	—	—	—
Non-Executive Directors				
LM Nestadt	2 191	—	2 191	—
KM Ellerine	679	250	929	—
GD Harlow	1 262	250	1 512	497
JS Mthimunye	1 137	250	1 387	60
SJ Vilakazi	979	250	1 229	—
PL Zim	586	250	836	21
NP Mnxasana	697	250	947	—
	7 531	1 500	9 031	578
	7 531	1 500	9 031	578
Prescribed officers				
GB Levin	—	—	—	—
JS Newman	—	—	—	—
	—	—	—	—
	7 531	1 500	9 031	578

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.

Salary and allowances from subsidiaries R'000	Bonuses and performance-related payments 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
10 936	**10 936**	**—**	**—**	**21 872**	**11 581**
10 936	**10 936**	**—**	**—**	**21 872**	**11 581**
5 792	**4 054**	**—**	**—**	**9 846**	**6 134**
27 664	**25 926**	**—**	**—**	**53 590**	**29 296**
—	**—**	**—**	**—**	**2 323**	**—**
—	**—**	**—**	**—**	**720**	**—**
—	**—**	**—**	**—**	**722**	**—**
—	**—**	**—**	**—**	**1 274**	**—**
—	**—**	**—**	**—**	**1 102**	**—**
—	**—**	**—**	**—**	**514**	**—**
—	**—**	**—**	**—**	**760**	**—**
—	**—**	**—**	**—**	**632**	**—**
—	**—**	**—**	**—**	**8 047**	**—**
27 664	**25 926**	**—**	**—**	**61 637**	**29 296**
4 970	**—**	**—**	**206**	**5 176**	**4 135**
4 833	**2 417**	**—**	**—**	**7 250**	**1 343**
9 803	**2 417**	**—**	**206**	**12 426**	**5 478**
37 467	**28 343**	**—**	**206**	**74 063**	**34 774**
10 317	12 793	1 391	36	24 537	23 830
10 317	12 793	1 391	36	24 537	23 830
5 464	4 645	—	—	10 109	12 621
26 098	30 231	2 782	72	59 183	60 281
—	—	—	—	2 191	—
—	—	—	—	929	—
—	—	—	—	2 009	—
—	—	—	—	1 447	—
—	—	—	—	1 229	—
—	—	—	—	857	—
—	—	—	—	947	—
—	—	—	—	9 609	—
26 098	30 231	2 782	72	68 792	60 281
4 689	3 282	—	192	8 163	7 104
3 262	2 280	—	—	5 542	1 000
7 951	5 562	—	192	13 705	8 104
34 049	35 793	2 782	264	82 497	68 385

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

CONTINUED

for the year ended 31 May 2023

5. EMPLOYEES continued

5.3 Directors' emoluments continued

	Issue date	Issue price R	Vesting date
FORFEITABLE SHARE SCHEME			
For the year ended 31 May 2023			
Executive Directors			
BM Levy	**18 November 2019**	**2.55**	**31 August 2022**
BM Levy	**1 September 2020**	**3.20**	**31 August 2023**
BM Levy	**6 April 2022**	**6.42**	**31 August 2024**
BM Levy	**1 September 2022**	**6.25**	**31 August 2025**
MS Levy	**18 November 2019**	**2.55**	**31 August 2022**
MS Levy	**1 September 2020**	**3.20**	**31 August 2023**
MS Levy	**6 April 2022**	**6.42**	**31 August 2024**
MS Levy	**1 September 2022**	**6.25**	**31 August 2025**
DA Suntup	**18 November 2019**	**2.55**	**31 August 2022**
DA Suntup	**1 September 2020**	**3.20**	**31 August 2023**
DA Suntup	**6 April 2022**	**6.42**	**31 August 2024**
DA Suntup	**1 September 2022**	**6.25**	**31 August 2025**
Prescribed officers			
GB Levin	**18 November 2019**	**2.55**	**31 August 2022**
GB Levin	**1 September 2020**	**3.20**	**31 August 2023**
GB Levin	**6 April 2022**	**6.42**	**31 August 2024**
GB Levin	**1 September 2022**	**6.25**	**31 August 2025**
JS Newman	**6 April 2022**	**6.42**	**31 August 2024**
JS Newman	**1 September 2022**	**6.25**	**31 August 2025**
FORFEITABLE SHARE SCHEME PER DIRECTOR			
For the year ended 31 May 2022			
BM Levy	1 September 2018	7.16	16 March 2022
BM Levy	18 November 2019	2.55	31 August 2022
BM Levy	1 September 2020	3.20	31 August 2023
BM Levy	6 April 2022	6.42	31 August 2024
MS Levy	1 September 2018	7.16	16 March 2022
MS Levy	18 November 2019	2.55	31 August 2022
MS Levy	1 September 2020	3.20	31 August 2023
MS Levy	6 April 2022	6.42	31 August 2024
DA Suntup	1 September 2018	7.16	16 March 2022
DA Suntup	18 November 2019	2.55	31 August 2022
DA Suntup	1 September 2020	3.20	31 August 2023
DA Suntup	6 April 2022	6.42	31 August 2024
Prescribed officers			
GB Levin	1 September 2018	7.16	16 March 2022
GB Levin	18 November 2019	2.55	31 August 2022
GB Levin	1 September 2020	3.20	31 August 2023
GB Levin	6 April 2022	6.42	31 August 2024
JS Newman	6 April 2022	6.42	31 August 2024

Awards outstanding as at the beginning of the year	Number of shares awarded during the year	Awards forfeited during the year	Awards vested during the year	Balance as at the end of the year
1 908 425	**258 210**	**—**	**(2 166 635)**	**—**
1 520 776	**—**	**—**	**—**	**1 520 776**
803 501	**—**	**—**	**—**	**803 501**
—	**874 878**	**—**	**—**	**874 878**
4 232 702	**1 133 088**	**—**	**(2 166 635)**	**3 199 155**
1 908 425	**258 210**	**—**	**(2 166 635)**	**—**
1 520 776	**—**	**—**	**—**	**1 520 776**
803 501	**—**	**—**	**—**	**803 501**
—	**874 878**	**—**	**—**	**874 878**
4 232 702	**1 133 088**	**—**	**(2 166 635)**	**3 199 155**
1 010 776	**136 758**	**—**	**(1 147 534)**	**—**
805 462	**—**	**—**	**—**	**805 462**
425 565	**—**	**—**	**—**	**425 565**
—	**463 369**	**—**	**—**	**463 369**
2 241 803	**600 127**	**—**	**(1 147 534)**	**1 694 396**
318 400	**43 080**	**—**	**(361 480)**	**—**
328 125	**—**	**—**	**—**	**328 125**
615 300	**—**	**—**	**—**	**615 300**
—	**198 801**	**—**	**—**	**198 801**
1 261 825	**241 881**	**—**	**(361 480)**	**1 142 226**
177 570	**—**	**—**	**—**	**177 570**
—	**193 344**	**—**	**—**	**193 344**
177 570	**193 344**	**—**	**—**	**370 914**
448 843	—	(299 244)	(149 599)	—
1 908 425	—	—	—	1 908 425
1 520 776	—	—	—	1 520 776
—	803 501	—	—	803 501
3 878 044	803 501	(299 244)	(149 599)	4 232 702
448 843	—	(299 244)	(149 599)	—
1 908 425	—	—	—	1 908 425
1 520 776	—	—	—	1 520 776
—	803 501	—	—	803 501
3 878 044	803 501	(299 244)	(149 599)	4 232 702
237 725	—	(158 491)	(79 234)	—
1 010 776	—	—	—	1 010 776
805 462	—	—	—	805 462
—	425 565	—	—	425 565
2 053 963	425 565	(158 491)	(79 234)	2 241 803
75 419	—	(22 626)	(52 793)	—
318 400	—	—	—	318 400
328 125	—	—	—	328 125
—	615 300	—	—	615 300
721 944	615 300	(22 626)	(52 793)	1 261 825
—	177 570	—	—	177 570
—	177 570	—	—	177 570

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.

	2023 Number of shares	2022 Number of shares
Authorised		
Total authorised share capital of ordinary shares (no par value)	**2 000 000 000**	2 000 000 000
Issued		
Balance at the beginning of the year	**876 782 473**	876 772 658
Shares acquired during the year	**(9 973 803)**	(1 442 247)
Shares vested during the year	**16 764 722**	1 452 062
Balance at the end of the year	**883 573 392**	876 782 473
Total number of shares in issue	**913 655 874**	913 655 874
Treasury shares	**(30 082 482)**	(36 873 401)

The Company acquired 10 575 666 (2022: 1 955 484) shares at an average price of R6.58 (2022: R6.48) on the JSE in order to grant forfeitable shares to employees and Directors as part of the Group's forfeitable share plan. Of the total shares acquired, 9 973 803 (2022: 1 442 247) related to shares awarded to employees of subsidiary companies in terms of the equity-settled forfeitable share plan, which are held as treasury shares and accounted for against share premium. The remaining shares of 601 863 (2022: 513 237) related to shares awarded to employees of associate companies in terms of their cash-settled forfeitable share plan and are not considered to be treasury shares of the Group.

The amount paid to acquire the treasury shares was R66.0 million (2022: R9.3 million) and has been deducted from shareholders' equity.

Refer to note 5.1 for details on the forfeitable shares.

6.2 Other reserves

	2023 R'000	2022 R'000
Balance at the beginning of the year	**(2 871 437)**	(2 732 783)
Exchange differences on translation of foreign operations	**1 646**	1 251
Transactions with non-controlling interests	**—**	(166 094)
Acquisition of non-controlling interest	**(41)**	—
Equity compensation benefit scheme shares vested	**(41 423)**	(9 954)
Equity compensation benefit movement	**38 443**	30 446
Gain arising on changes in fair value of hedging instruments (effective portion), net of tax	**6 346**	7 627
Loss on hedging instrument reclassified to profit or loss, net of tax	**(10 546)**	(1 930)
Balance at the end of the year	**(2 877 012)**	(2 871 437)
Consisting of:		
Restructuring reserve	**(1 843 912)**	(1 843 912)
Foreign currency translation reserve	**35 655**	34 009
Non-distributable reserve	**7 771**	7 771
Transactions with non-controlling interest reserve	**(1 145 201)**	(1 145 160)
Equity compensation benefit reserve	**62 350**	65 330
Cash flow hedge reserve	**6 325**	10 525
	(2 877 012)	(2 871 437)

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. On 29 June 2021, TPC acquired an additional 52% shareholding in Glocell Distribution for a total purchase consideration of R137 million, of which R126 million (refer to note 3.5) was discharged by way of a conversion of debt owing by Glocell Proprietary Limited, the owners of 40% of the company, to TPC. The remaining 12% was acquired by The Prepaid Company for R11 million. Over and above the cost of acquisition of 52% of Glocell Distribution by The Prepaid Company, the latter assumed Glocell Proprietary Limited's obligation of R105 million to Investec Bank Limited.

The cash flow hedge reserve arose in 2021. TPC entered into a ZAR denominated floating rate debt instrument and is exposed to variability in interest payments as a result of interest rate fluctuations. To hedge this interest rate risk, TPC took out a pay-fixed, receive-floating interest rate swap instrument. The type of hedging relationship is a cash flow hedge. Refer to note 3.7 for more details.

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.

	2023 R'000	2022 R'000
Current tax	**253 506**	225 841
Current year	**255 701**	224 551
Adjustment in respect of prior years	**(2 195)**	1 290
Deferred tax	**(57 238)**	93 671
Current year	**(60 358)**	94 293
Adjustment in respect of prior years	**3 120**	(622)
Transfer from other comprehensive income	**3 770**	750
Income tax expense	**200 038**	320 262

	2023		2022	
	R'000	%	R'000	%
Profit before tax	**488 211**		1 412 259	
Tax at 27% (2022: 28%)	**131 817**	**27.0**	395 433	28.0
Tax arising from the Cell C Recapitalisation transaction	**58 939**	**12.1**	—	—
Reversal of impairment of investment in associate	**(259 883)**	**(53.2)**	—	—
Loss on modification of financial asset	**15 512**	**3.2**	—	—
ECL movement on loans receivable	**16 465**	**3.4**	(111)	(0.0)
Receipt of contingent consideration	**—**	**—**	(12 831)	(0.9)
Fair value adjustments to derivative liability	**(5 940)**	**(1.2)**	(12 930)	(0.9)
Learnership allowances	**(93 949)**	**(19.2)**	(32 617)	(2.3)
Employment tax incentive	**(20 427)**	**(4.2)**	(10 687)	(0.8)
Surety loan fair value adjustment	**(8 841)**	**(1.8)**	3 600	0.3
Other income not subject to tax	**(19 233)**	**(3.9)**	(16 091)	(1.1)
Other expenses not deductible for tax purposes	**21 046**	**4.3**	16 950	1.2
Tax effect of assessed losses not recognised	**1 716**	**0.4**	691	0.0
Utilisation of previously unrecognised assessed losses	**(799)**	**(0.2)**	(2 101)	(0.1)
Share of losses/(profits) from associates and joint ventures (refer to note 2.1.2)	**359 031**	**73.5**	(2 252)	(0.2)
Adjustment in respect of prior years	**925**	**0.2**	668	0.0
Effect of tax rate changes	**(111)**	**(0.0)**	(8 210)	(0.6)
Transfer from other comprehensive income	**3 770**	**0.8**	750	0.1
Tax charge	**200 038**	**41.2**	320 262	22.7
Effective tax rate	**41.2%**		22.7%	

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 R'000	Purchase price allocations and fair value gains* R'000	Provisions R'000	Tax losses R'000	Prepay-ments R'000	Unrealised foreign exchange differences R'000	Other** R'000	Total R'000
AT 31 MAY 2021	173 088	97 423	(52 072)	(101 318)	2 776	—	(399)	119 498
Charged/(credited) to the income statement	181 138	(27 193)	(48 598)	(31 051)	6 032	—	21 367	101 695
Charged to other comprehensive income	—	—	—	—	—	—	3 726	3 726
Tax rate change	(12 654)	(2 494)	2 956	4 561	(185)	—	(446)	(8 262)
AT 31 MAY 2022	**341 572**	**67 736**	**(97 714)**	**(127 808)**	**8 623**	**—**	**24 248**	**216 657**
Charged/(credited) to the income statement	**(13 247)**	**(11 312)**	**(42 485)**	**44 391**	**(4 182)**	**10 195**	**(40 598)**	**(57 238)**
Acquisition of subsidiary	**—**	**1 460**	**—**	**(4 668)**	**—**	**—**	**—**	**(3 208)**
Charged to other comprehensive income	**—**	**—**	**—**	**—**	**—**	**—**	**(1 879)**	**(1 879)**
AT 31 MAY 2023	**328 325**	**57 884**	**(140 199)**	**(88 085)**	**4 441**	**10 195**	**(18 229)**	**154 332**

* These relate to intangible assets included in note 4.2.

** Other deferred tax includes R50 million deferred taxation asset in respect of taxes paid on the gross profit that arose from the Airtime sale and repurchase transaction which formed part of the Cell C Recapitalisation Transaction. For SA income tax purposes this is included in gross income when the sale of the airtime took place. For IFRS purposes, the gross profit on the airtime will only be recognised in profit or loss when the airtime repurchased, is sold to customers. Refer to note 2.1.1. This is offset by a R26.2 million deferred tax liability that arose as a result of contract revenue recognised in advance.

	2023 R'000	2022 R'000
Deferred tax asset comprises:		
Capital allowances	**(243)**	(183)
Provisions	**(140 199)**	(97 714)
Tax losses	**(88 085)**	(127 808)
Other	**(44 464)**	(6 402)
Total deferred tax asset	**(272 991)**	(232 107)
Deferred tax liability comprises:		
Capital allowances	**328 567**	341 755
Purchase price allocations and fair value gains	**57 884**	67 736
Prepayments	**4 441**	8 623
Unrealised foreign exchange differences	**10 195**	—
Other	**26 236**	30 650
Total deferred tax liability	**427 323**	448 764
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	**(14 641)**	(6 221)
Deferred tax assets to be recovered within 12 months	**(150 167)**	(77 031)
Net deferred tax asset	**(164 808)**	(83 252)
Deferred tax liabilities		
Deferred tax liabilities to be recovered after more than 12 months	**252 082**	230 146
Deferred tax liabilities to be recovered within 12 months	**67 058**	69 763
Net deferred tax liability	**319 140**	299 909

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 R48.8 million (2022: R47.9 million) in respect of losses amounting to R180.9 million (2022: R177.5 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.

8. RELATED PARTIES

Transactions and balances with related parties:

	Sales to related parties		Purchases from related parties	
	2023 R'000	2022 R'000	**2023 R'000**	2022 R'000
Blue Train Proprietary Limited*	**1 845**	—	**67 344**	13 631
Blue Label Communications Proprietary Limited*	**146**	—	**—**	—
Cell C Limited and its related entities*	**5 354 565**	3 975 162	**7 035 401**	6 624 066
I Talk Financial Services Proprietary Limited*	**4 690**	5 924	**5 419**	2 452
I Talk Holdings Proprietary Limited*	**31 483**	28 192	**42 588**	42 542
I Talk 2U Proprietary Limited*	**—**	218	**—**	217
i-Crypto Incorporated*	**1 018**	70	**—**	—
Mobii Systems Proprietary Limited and its related entities*	**480**	480	**—**	2 111
Moneyline 311 Proprietary Limited[2]	**—**	—	**1 720**	4 201
T3 Telecoms SA Proprietary Limited*	**2 232 922**	3 619 973	**29 897**	20 561
Unihold Group Proprietary Limited	**—**	3	**—**	—
Utilities World Proprietary Limited*	**8 532**	3 803	**8 054**	1 017
Uvongo Falls No 26 Proprietary Limited[2]	**—**	—	**926**	1 314
Wozza Airtime Proprietary Limited*	**51**	—	**—**	—
	7 635 732	7 633 825	**7 193 237**	6 712 112

* These entities are associates/joint ventures. For further details in this regard, refer to note 2.1.2.

[2] Independent Non-Executive Director, GD Harlow, resigned on 19 October 2022. Related party disclosure, as a result of his common directorships, has been disclosed accordingly and in line with his resignation date.

	Income received from related parties		Expenses paid to related parties	
	2023 R'000	2022 R'000	**2023 R'000**	2022 R'000
Other income received from related parties				
Blue Train Proprietary Limited*	**—**	501	**—**	—
I Talk Financial Services Proprietary Limited*	**5 566**	—	**—**	—
I Talk Holdings Proprietary Limited*	**15 628**	—	**—**	—
T3 Telecoms SA Proprietary Limited*	**7 884**	—	**—**	—
Wozza Airtime Proprietary Limited*	**4**	—	**—**	—
Dividends received from related parties				
Utilities World Proprietary Limited*	**61**	5 885	**—**	—
Interest received from related parties				
Cell C Limited and its related entities*	**317 235**	—	**—**	—
Blue Train Proprietary Limited*	**283**	103	**—**	—
I Talk Holdings Proprietary Limited*	**2 783**	910	**—**	—
Mobile Macs Proprietary Limited*	**172**	—	**—**	—
T3 Telecoms SA Proprietary Limited*	**1 301**	1 470	**—**	
Utilities World Proprietary Limited*	**1 710**	2 237	**—**	—
Wozza Airtime Proprietary Limited*	**509**	25	**—**	—
Finance revenue from related parties				
Cell C Limited and its related entities*	**36 244**	96 788	**—**	—
Management fees received from related parties				
I Talk Holdings Proprietary Limited*	**743**	2 774	**—**	—
T3 Telecoms SA Proprietary Limited*	**1 121**	965	**—**	—
Trust Blu Foundation	**—**	876	**—**	—
Rent received from related parties				
T3 Telecoms SA Proprietary Limited*	**1 010**	1 287	**—**	—
Interest paid to related parties				
I Talk Holdings Proprietary Limited*	**—**	—	**—**	3
Rent paid to related parties[1]				
Ellerine Bros. Proprietary Limited	**—**	—	**10 612**	9 826
Moneyline 311 Proprietary Limited[2]	**—**	—	**4 070**	9 826
Uvongo Falls No 26 Proprietary Limited[2]	**—**	—	**4 780**	10 228
Social economic development				
Trust Blu Foundation	**282**	280	**14 590**	18 973
	392 536	114 101	**34 052**	48 856

* These entities are associates/joint ventures. For further details in this regard, refer to note 2.1.2.

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

[2] Independent Non-Executive Director, GD Harlow, resigned on 19 October 2022. Related party disclosure, as a result of his common directorships, has been disclosed accordingly and in line with his resignation date.

8. RELATED PARTIES continued

	Loans to related parties		Loans from related parties	
	2023 R'000	2022 R'000	**2023 R'000**	2022 R'000
Cell C Limited and its related entities*	**2 166 240**	—	**—**	—
Blue Train Proprietary Limited*	**5 149**	4 116	**—**	—
Brett Levy[3]	**64 658**	48 286	**—**	—
Mark Levy[3]	**64 658**	48 286	**—**	—
I Talk Financial Services Proprietary Limited*	**4 000**	8 000	**—**	—
I Talk Holdings Proprietary Limited*	**19 900**	18 900	**—**	—
Mobii Systems Proprietary Limited and its related entities*	**4 884**	—	**—**	—
Mobile Macs Proprietary Limited*	**5 100**	—	**—**	—
T3 Telecoms SA Proprietary Limited*	**6 854**	14 682	**—**	—
Wozza Airtime Proprietary Limited*	**2 338**	4 078	**—**	—
Total loss allowance on loans to related parties	**(59 417)**	(1 173)	**—**	—
	2 284 364	145 175	**—**	—

	Lease asset due from related parties		Lease liability due to related parties[2]	
	2023 R'000	2022 R'000	**2023 R'000**	2022 R'000
Ellerine Bros. Proprietary Limited	**—**	—	**—**	10 059
Moneyline 311 Proprietary Limited	**—**	—	**—**	10 059
Uvongo Falls No 26 Proprietary Limited	**—**	—	**—**	10 257
	—	—	**—**	30 375

	Amounts due from related parties included in trade receivables		Amounts due to related parties included in trade payables	
	2023 R'000	2022 R'000	**2023 R'000**	2022 R'000
Blue Train Proprietary Limited*	**814**	1 598	**1 669**	1 207
Blue Label Communications Proprietary Limited*	**24**	—	**—**	—
Cell C Limited and its related entities*	**518 031**	2 612 065	**308 823**	851 473
I Talk Financial Services Proprietary Limited*	**3 884**	1 758	**1 273**	626
I Talk Holdings Proprietary Limited*	**10 040**	10 031	**6 149**	3 123
I Talk 2U Proprietary Limited*	**—**	21	**—**	—
i-Crypto Incorporated*	**1 088**	420	**—**	—
Mobii Systems Proprietary Limited and its related entities*	**440**	120	**—**	419
Mobile Macs Proprietary Limited*	**84**	—	**—**	—
Oxigen Services India Private Limited*#	**5 876**	5 876	**—**	—
T3 Telecoms SA Proprietary Limited*	**11 097**	9 687	**96**	—
Utilities World Proprietary Limited*	**591**	2 864	**1 489**	646
Uvongo Falls No 26 Proprietary Limited	**—**	—	**6**	525
Wozza Airtime Proprietary Limited*	**38**	—	**25**	—
Total loss allowance on trade receivables to related parties	**(8 422)**	(32 575)	**—**	—
	543 585	2 611 865	**319 530**	858 019

* These entities are associates/joint ventures. For further details in this regard, refer to note 2.1.2.

[#] This amount has been fully provided for both in the current and prior year and is included as part of the total loss allowance.

[2] Independent Non-Executive Director, GD Harlow, resigned on 19 October 2022. Related party disclosure, as a result of his common directorships, has been disclosed accordingly and in line with his resignation date.

[3] Refer to note 3.5 for details on the surety loans.

	Amounts due from related parties included in other receivables		Amounts due to related parties included in other payables	
	2023 R'000	2022 R'000	**2023 R'000**	2022 R'000
Cell C Limited and its related entities*	**161 173**	—	**—**	—
Blue Train Proprietary Limited*	**—**	—	**—**	854
T3 Telecoms SA Proprietary Limited*	**78**	—	**—**	—
TPC trade claim (included in sundry receivables)[#]	**53 375**	—	**—**	—
Utilities World Proprietary Limited*	**13 750**	21 335	**—**	—
Total loss allowance on other receivables to related parties	**(53 375)**	—	**—**	—
	175 001	21 335	**—**	854

* These entities are associates/joint ventures. For further details in this regard, refer to note 2.1.2.

[#] This amount has been fully provided for both in the current year and is included as part of the total loss allowance.

Certain related party disclosure is required as a result of common directorships.

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.

9. ACCOUNTING FRAMEWORK

9.1 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.

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.

9. ACCOUNTING FRAMEWORK continued

9.2 Going concern

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within its current funding levels into the foreseeable future.

Refer to note 3.2.2 for a description of the Group's facilities and covenants.

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources and facilities to continue in operational existence for the foreseeable future and is not at risk of breaching its covenants. The Group therefore continues to adopt the going concern basis in preparing the financial statements.

9.3 Standards, amendments and interpretations not yet effective

The standards, interpretations and amendments listed below will only be effective in future reporting periods. It is expected that the Group will adopt the pronouncements on their respective effective dates. The amendments are not expected to have a material impact on the Group.

Standards, interpretations and amendments issued but not effective	Effective date
IAS 12 (Income Taxes) Amendments regarding deferred tax related to assets and liabilities arising from a single transaction	Year ending 31 May 2024
IAS 1 (Presentation of Financial Statements) 'Presentation of Financial Statements' on Classification of Liabilities as Current or Non-current	Year ending 31 May 2024
Narrow scope amendments to IAS 1 'Presentation of Financial Statements', Practice statement 2 and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'	Year ending 31 May 2024
IFRS 7 (Financial Instruments) Requires a company to disclose specific information about its supplier finance arrangements that enables users of financial statements to assess the effects of those arrangements on the Company's liabilities and cash flows and on the Company's exposure to liquidity risk.	Year ending 31 May 2025
IAS 16 (Property, Plant and Equipment) Amendment to Lease Liability in a Sale and Leaseback. The new requirement does not prevent the seller-lessee from recognising in profit or loss any gain or loss relating to the partial or full termination of a lease.	Year ending 31 May 2025
IAS 7 (Statement of Cash Flows) Requires a company to disclose specific information about its supplier finance arrangements that enables users of financial statements to assess the effects of those arrangements on the Company's liabilities and cash flows and on the Company's exposure to liquidity risk.	Year ending 31 May 2025

9.4 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. SUBSEQUENT EVENTS

No adjusting or significant non-adjusting events have occurred between 31 May 2023 and the date of authorisation of the financial statements.

ANNEXURE A: SHAREHOLDER ANALYSIS

Shareholder spread	Number	%	Shares	%
1 – 1 000 shares	7 808	73.77	897 142	0.10
1 001 – 10 000 shares	1 654	15.63	6 640 777	0.73
10 001 – 100 000 shares	825	7.79	27 233 218	2.98
100 001 – 1 000 000 shares	211	1.99	69 671 916	7.63
1 000 001 shares and over	86	0.81	809 212 821	88.57
Totals	10 584	100.00	913 655 874	100

Distribution of shareholders	Number	%	Shares	%
Private Investor	246	2.32	265 089 482	29.01
Corporate Holding	8	0.08	161 169 748	17.64
Unit Trusts	52	0.49	134 880 268	14.76
Unclassified	34	0.32	127 945 836	14.00
Pension Funds	61	0.58	73 236 856	8.02
Trading Position	13	0.12	66 205 101	7.25
Mutual Fund	19	0.18	26 888 063	2.94
Insurance Companies	12	0.11	17 220 261	1.88
Hedge Fund	5	0.05	14 854 867	1.63
Stock Broker	1	0.01	13 204 033	1.45
Exchange-Traded Fund	5	0.05	3 739 897	0.41
Medical Aid Scheme	5	0.05	2 871 702	0.31
University	5	0.05	2 320 061	0.25
Custodians	4	0.04	2 161 000	0.24
Local Authority	1	0.01	785 875	0.09
Remainder	10 113	95.55	1 082 824	0.12
Totals	10 584	100	913 655 874	100

Public/non-public shareholders	Number	%	Shares	%
Non-public shareholders	9	0.09	430 292 846	47.10
Strategic Holdings (more than 10%)	1	0.01	100 000 000	10.95
Treasury Stock	1	0.01	31 889 362	3.49
Directors and Associates	7	0.07	298 403 484	32.66
Public shareholders	10 575	99.91	483 363 028	52.90
Totals	10 584	100	913 655 874	100

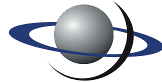
Beneficial shareholders holding 2% or more	Shares	%
Shotput Investments (Pty) Ltd*	100 000 000	10.95
Levy BM	87 364 326	9.56
Levy MS	79 956 918	8.75
Allan Gray Balanced Fund	57 329 627	6.27
Zarclear Securities Lending Pty Ltd	51 305 113	5.62
Blue Label Telecoms Ltd	31 889 362	3.49
ERZ Telecoms CC	26 943 509	2.95
Centriq Sasol Equity Portfolio	25 000 000	2.74
Government Employees Pension Fund (PIC)	24 337 191	2.66
Seaview Global Investments	20 000 000	2.19
Allan Gray Equity Fund	18 588 349	2.03
Totals	522 714 395	57.21

Shareholders holding 2% or more	Shares	%
Allan Gray Pty Ltd	125 609 099	13.75
Shotput Investments (Pty) Ltd*	100 000 000	10.94
Levy BM	87 364 326	9.56
Levy MS	79 956 918	8.75
Zarclear Securities Lending Pty Ltd	51 305 113	5.62
Sanlam Investment Management	45 066 969	4.93
Blue Label Telecoms Ltd	31 889 362	3.49
ERZ Telecoms CC	26 943 509	2.95
MIBFA	26 593 364	2.91
Seaview Global Investments	20 000 000	2.19
The Vanguard Group Inc	19 452 876	2.13
Totals	614 181 536	67.22

* 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.

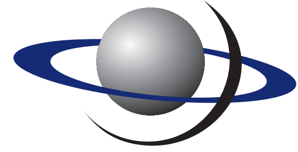
GLOSSARY

Word	Definition
Act/the Act/ Companies Act	Companies Act, No 71 of 2008, as amended from time to time
AGM	Annual General Meeting
Airvantage	Airvantage, a private company whose Prepaid Airtime Advance System (PAS) offers Mobile Network Operators airtime, data and mobile money services: the ability to advance airtime, data or mobile money to subscribers
ARCC	Audit, Risk and Compliance Committee
BLT; Blue Label/Blue Label Telecoms; Company	Blue Label Telecoms Limited
CEC	Comm Equipment Company
Cell C	Cell C Proprietary Limited, launched operations in 2001, seven years after the launch of the two incumbents, Vodacom and MTN (launched in 1994)
CEO	Chief Executive Officer
Deloitte	Deloitte South Africa
EBITDA	Earnings before interest, taxes, depreciation and amortisation
Group	Blue Label Telecoms Limited and its subsidiaries, associates and joint ventures
HEPS	Headline earnings per share
JSE	Johannesburg Stock Exchange Limited
King IV	King IV Report on Corporate Governance for South Africa
PwC	PricewaterhouseCoopers Inc.
SIM card	Subscriber identification module card
SMS	Short message service
SNGGT	SizweNtsalubaGobodo Grant Thornton Inc.
STI	Short-term incentives
STIP	Short-term incentive plan
TJ	Transaction Junction Proprietary Limited
TPC	The Prepaid Company Proprietary Limited
USD	US dollar
virtual distributor	Distribution of e-tokens of value in electronic format
WACC	Weighted Average Cost of Capital



75 Grayston Drive
(Corner of Grayston Drive & Benmore Drive)
Morningside Extension 05, Sandton,
Johannesburg, South Africa

www.bluelabeltelecoms.co.za



BLUE LABEL
TELECOMS

Audited results for the year ended 31 May 2023

ONE DAY
DAY ONE

Day one . . . the starting point of all achievement is desire

DAY ONE

FINANCIAL HIGHLIGHTS

Revenue of
R18.9 billion*

Increase in gross profit margin from
16.46% to 18.41%

Increase in gross profit of 19% to
R3.48 billion
(2022: R2.93 billion)

Successful conclusion
of the Cell C recapitalisation transaction in September 2022

Core headline earnings per share**
45.55 cents per share
(2022: 121.01 cents per share)

* On inclusion of the gross amount generated on "PINless top-ups", prepaid electricity, ticketing and gaming, the effective increase equated to 6% from R72.3 billion to R76.8 billion.

** Excluding the extraneous contributions of R523 million in the current year, primarily resulting from the recapitalisation transaction of Cell C, and R214 million in the prior year, core headline earnings per share increased by 9% to 104.83 cents per share compared to 96.56 cents per share in the prior year.

COMMENTARY

GROUP RESULTS

Core headline earnings for the year ended 31 May 2023 amounted to R402 million, equating to core headline earnings of 45.55 cents per share.

In the comparative year, core headline earnings amounted to R1.061 billion, equating to core headline earnings of 121.01 cents per share.

The core businesses of the Blue Label Group have shown consistent growth in revenue, gross profit, and core headline earnings per share for the year ended 31 May 2023. The predominant extraneous contributions to the May 2023 basic, headline, and core headline earnings per share are primarily associated with the recapitalisation transaction of Cell C.

Excluding the extraneous contributions of R523 million in the current year and the non-recurring income of R214 million in the prior year, as illustrated in the underlying tables, core headline earnings increased by R78 million (9%) from R847 million to R925 million. Core headline earnings per share increased by 9% from 96.56 cents per share in the prior year to 104.83 cents per share.

Earnings per share for the current and prior years amounted to 30.48 cents and 117.13 cents respectively. On exclusion of the extraneous contributions and non-recurring income from both the current and prior years, earnings per share and headline earnings per share increased by 8% to 100.35 cents per share and 9% to 101.24 cents per share, respectively.

Group revenue increased by R1.1 billion (6%) to R18.9 billion. However, as only the gross profit earned on "PINless top-ups", prepaid electricity, ticketing, and gaming is recognised as revenue, on imputing the gross revenue generated from these sources, the effective growth in revenue equated to R4.5 billion (6%), resulting in a total revenue of R76.8 billion compared to the prior year of R72.3 billion.

Gross profit increased by R552 million (19%) from R2.931 billion to R3.483 billion, corresponding to an increase in margins from 16.46% to 18.41%. This increase in margins can be partially attributed to the growth in "PINless top-ups", prepaid electricity, ticketing, and gaming, where only the gross profit earned thereon is recognised as revenue.

Furthermore, load shedding has been a significant challenge faced by our organisation in recent times, which is entirely out of management's control. It has negatively impacted the sale of prepaid electricity, prepaid airtime, starter packs and our call centre operations, all of which are significant revenue streams for the Group. The frequent power outages imposed by external factors have adversely affected our operational efficiency, resulting in disruptions, delays, and additional costs.

While the management team has worked diligently to mitigate the effects of load shedding, it has disrupted the availability and accessibility of these essential services to our customers and has negatively affected our overall financial performance. The demand for these product offerings has experienced a decline, resulting in a significant reduction in revenue. The unpredictability and intermittent nature of load shedding have made it challenging for customers to conveniently purchase these products, especially during the second half of the financial year when the country experienced stage 4 and higher levels of load shedding.

COMMENTARY CONTINUED

GROUP INCOME STATEMENT

For the year ended 31 May 2023

	Group May 2023 R'000	Extraneous costs* May 2023 R'000	Remaining May 2023 R'000
Revenue	**18 918 263**	—	18 918 263
Gross profit	**3 483 075**	—	3 483 075
Other income	**90 176**	—	90 176
Bad debts, expected credit losses and fair value movements	**(667 649)**	(88 474)	(579 175)
Loss on modification of financial instruments	**(57 453)**	(57 453)	—
EBITDA	**1 316 926**	(145 927)	1 462 853
Finance costs	**(682 599)**	(321 915)	(360 684)
Finance income	**411 540**	238 362	173 178
Non-controlling interest	**(19 207)**	—	(19 207)
Reversal of impairments in associates	**962 531**	962 531	—
Share of (losses)/profits from associates and joint ventures	**(1 329 747)**	(1 328 767)	(980)
Net profit after tax	**268 966**	(616 688)	885 654
Core headline earnings	**401 961**	(523 157)	925 118
Gross profit margin (%)	**18.41**		18.41
EBITDA margin (%)	**6.96**		7.73
Weighted average shares ('000)	**882 530**		882 530
Share performance			
EPS (cents)	**30.48**		100.35
HEPS (cents)	**41.97**		101.24
Core HEPS (cents)	**45.55**		104.83

* The extraneous contributions to Group earnings in the current year were primarily attributable to:

- the accounting treatment relating to the recapitalisation transaction of Cell C[(1)], emanating from:
  - expected credit losses and fair value movements of R88 million;
  - loss on modification of financial instruments of R57 million primarily due to the renegotiation and reclassification of the CEC deferral amount of R1.1 billion, owed by Cell C, from 'trade and other receivables' to 'loans to associates and joint ventures';
  - finance costs of R322 million resulting from increased borrowings related to airtime sale and repurchase obligations, as well as the issue of Class A Preference Shares;
  - finance income of R238 million resulting from a loan to Cell C for its debt funding requirements;
  - a partial reversal of R962.5 million relating to the initial impairment of R2.5 billion of Blue Label's investment in Cell C as at 31 May 2019, in line with an improvement in its equity valuation; and
  - recognition of the Group's share of Cell C's net accumulated losses for the period from 1 June 2019 to 31 May 2023, limited to R1.329 billion, being the aggregate of the partial reversal of the initial impairment of R962.5 million of Blue Label's investment in Cell C, as well as additional investments therein amounting to R366 million.
- the accounting implications of the termination of the Airvantage put option obligation for the acquisition of up to 40% of the shares therein resulted in a fair value gain of R22 million[(2)].

	Extraneous costs* May 2023 R'000	Recap of Cell C[(1)] May 2023 R'000	Once-offs[(2)] May 2023 R'000
Bad debts, expected credit losses and fair value movements	**(88 474)**	(110 474)	22 000
Loss on modification of financial instrument	**(57 453)**	(57 453)	—
EBITDA	**(145 927)**	(167 927)	22 000
Finance costs	**(321 915)**	(321 915)	—
Finance income	**238 362**	238 362	—
Reversal of impairments in associates	**962 531**	962 531	—
Share of losses from associates and joint ventures	**(1 328 767)**	(1 328 767)	—
Net (loss)/profit	**(616 688)**	(638 688)	22 000
Core headline earnings	**(523 157)**	(545 157)	22 000

COMMENTARY CONTINUED

Group May 2022 R'000	Extraneous income** May 2022 R'000	Remaining May 2022 R'000	Growth remaining R'000	Growth remaining %
17 806 262	—	17 806 262	1 112 001	6
2 930 974	—	2 930 974	552 101	19
390 851	360 955	29 896	60 280	202
(264 515)	46 179	(310 694)	(268 481)	(86)
—	—	—	—	
1 698 494	326 301	1 372 193	90 660	7
(201 225)	—	(201 225)	(159 459)	(79)
80 993	—	80 993	92 185	114
(64 918)	(43 203)	(21 715)	2 508	12
—	—	—	—	
8 042	—	8 042	(9 022)	(112)
1 027 079	214 410	812 669	72 985	9
1 061 080	214 410	846 670	78 448	9
16.46		16.46		
9.54		7.71		
876 857		876 857		
117.13		92.68	7.67	8
117.34		92.89	8.36	9
121.01		96.56	8.27	9

** The extraneous contributions to Group earnings in the prior year were attributable to once-off income [(3)], including:

- once-off recoupment income of R123 million, comprising the aggregate value of assets either realised by or signed over to the Group relating to the fraudulent scheme. This income was partially offset by professional fees and other costs incurred, taxation and the non-controlling interest thereon;
- the accounting effects of the settlement of the contingent consideration of R46 million relating to the disposal of the VAS operations in April 2020; and
- the accounting implications of the put option obligation of R46 million, for the acquisition of up to 40% of the shares in Airvantage.

	Extraneous income May 2022 R'000**	Once-offs[(3)] May 2022 R'000
Other income	**360 955**	360 955
EBITDA	**326 301**	326 301
Non-controlling interest	**(43 203)**	(43 203)
Net profit	**214 410**	214 410
Core headline earnings	**214 410**	214 410

EBITDA increased by R91 million (7%) from R1.372 billion to R1.463 billion, excluding the extraneous contributions of R146 million in the current year and non-recurring income of R326 million in the prior year.

Excluding the R145 million costs attributable to learnership initiatives in the current year and R65 million in the prior year, EBITDA increased by R171 million (12%) to R1.608 billion (2022: R1.437 billion). The benefit thereof is realised through income tax savings resulting from the section 12H allowances claimed for these learnerships.

SEGMENTAL REPORT

Africa distribution

	May 2023 R'000	Extraneous costs[1] May 2023 R'000	Remaining May 2023 R'000	May 2022 R'000	Extraneous income[3] May 2022 R'000	Remaining May 2022 R'000	Growth remaining R'000	Growth remaining %
Revenue	**18 643 810**	—	18 643 810	17 552 603	—	17 552 602	1 091 207	6
Gross profit	**3 402 488**	—	3 402 488	2 866 324	—	2 866 324	536 164	19
Other income	**82 162**	—	82 162	337 153	315 132	22 021	60 141	273
Bad debts, expected credit losses and fair value movements	**(722 046)**	(110 474)	(611 572)	(323 091)	—	(323 091)	(288 481)	(89)
Loss on modification of financial instrument	**(57 453)**	(57 453)	—	—	—	—	—	
EBITDA	**1 363 916**	(167 927)	1 531 843	1 700 844	234 853	1 465 991	65 852	4
Finance costs	**(681 193)**	(321 915)	(359 278)	(197 477)	—	(197 477)	(161 801)	(82)
Finance income	**407 731**	238 362	169 369	79 733	—	79 733	89 636	112
Non-controlling interest	**(14 997)**	—	(14 997)	(59 001)	(43 203)	(15 798)	801	5
Reversal of impairments in associates	**962 531**	962 531	—	—	—	—	—	
Share of (losses)/profits from associates and joint ventures	**(1 320 348)**	(1 328 767)	8 419	1 678	—	1 678	6 741	402
Net profit	**360 771**	(638 688)	999 459	1 058 951	122 962	935 989	63 470	7
Core headline earnings	**493 402**	(545 157)	1 038 559	1 092 828	122 962	969 866	68 693	7
Gross profit margin (%)	**18.25**		18.25	16.33		16.33		
EBITDA margin (%)	**7.32**		8.22	9.69		8.35		

Refer to page 2 for footnote (1) and page 3 for footnote (3).

Revenue generated within the Africa distribution segment increased by R1.1 billion (6%) from R17.5 billion to R18.6 billion. As only the gross profit earned on "PINless top-ups", prepaid electricity, ticketing, and gaming are recognised as revenue, on imputing the gross revenue generated thereon, the effective growth in revenue equated to R4.4 billion (6%) from R72.1 billion to R76.5 billion.

Gross revenue generated on "PINless top-ups" increased by R246 million from R21.0 billion to R21.2 billion.

Although electricity revenue generated on behalf of the utilities increased by R983 million (3%) from R31.5 billion to R32.4 billion, the net commission earned, calculated based on a kW/hour usage, declined by R47 million (16%) from R298 million to R251 million. This decline in commissions was primarily due to a decrease in electricity usage resulting from a higher frequency of load shedding and margin compression, despite an increase in gross electricity revenue driven by NERSA electricity tariffs.

Gross gaming revenue increased by R1.5 billion (72%) from R2.1 billion to R3.6 billion, driven by the continued traction of BluVoucher sales. Additionally, gross ticketing revenue increased by R675 million (156%) to R1.1 billion, primarily from revenue generated through commuter bus channels.

Gross profit increased by R536 million (19%) from R2.87 billion to R3.4 billion, congruent with an increase in margins from 16.33% to 18.25%.

Excluding the extraneous contributions of R168 million relating to the Cell C recapitalisation transaction in the current year, and the once-off income of R235 million in the prior year, which included the non-recurring recoupment income, net of professional fees incurred, EBITDA increased by R66 million (4%) to R1.53 billion.

The anticipated increase in overheads included costs of R139 million attributed to learnership initiatives in the current year and R53 million in the prior year. Excluding these costs in both the current and prior years, EBITDA increased by R152 million (10%).

Core headline earnings reflected extraneous contributions of R545 million in the current year, relating to the recapitalisation transaction of Cell C, and R123 million in the prior year, pertaining to the net recoupment as a result of the fraudulent scheme.

Excluding the above extraneous contributions and non-recurring income in the current and prior years, core headline earnings increased by R69 million (7%) from R970 million to R1.04 billion.

Solutions

This segment comprises Datacel, Blue Label Data Solutions (BLDS), the data aggregation and lead generation entity in which the Group owns 81%, a 50% joint venture shareholding owned by BLDS in I Talk Holdings and 37.5% in I Talk Financial Services, both of which are outbound call centre operations.

In addition, the following underlying companies form part of the solutions segment, namely, Blue Train, Blue Label Communications, One World Telecoms and I Talk2U.

	May 2023 R'000	May 2022 R'000	Growth R'000	Growth %
Revenue	**274 453**	253 659	20 794	8
Gross profit	**80 587**	64 650	15 937	25
EBITDA	**40 359**	27 503	12 856	47
Share of (losses)/profits from associates and joint ventures	**(9 399)**	6 364	(15 763)	(248)
Core headline earnings	**25 240**	29 487	(4 247)	(14)
Gross profit margin (%)	**29.36**	25.49		
EBITDA margin (%)	**14.71**	10.84		

Increased demand for aggregated data, lead generations and SMS volumes resulted in an increase in revenue of 8% from R254 million to R274 million.

Gross profit increased by R16 million (25%) from R65 million to R81 million, congruent with the increase in revenue at higher margins from 25.49% to 29.36%.

EBITDA increased by R13 million (47%) from R28 million to R40 million, of which BLDS contributed R40 million. In the prior year, BLDS contributed R26 million, and the call centre operations R2 million.

Of the core headline earnings of R25.2 million, BLDS accounted for R32.5 million, I Talk Holdings and I Talk Financial Services generated negative earnings of R20 million, of which the Group's share amounted to R8 million. Blue Label Communications generated earnings of R1.3 million, of which the Group's share amounted to R0.7 million.

Of the core headline earnings of R29.5 million in the prior year, BLDS accounted for R24.4 million. I Talk Holdings and I Talk Financial Services generated earnings of R12.1 million, of which the Group's share thereof amounted to R5.1 million.

Corporate

	May 2023 R'000	Extraneous income[2] May 2023 R'000	Remaining May 2023 R'000	May 2022 R'000	Extraneous income[3] May 2022 R'000	Remaining May 2022 R'000	Growth remaining R'000	Growth remaining %
Other income	**3 677**	—	3 677	51 565	45 823	5 742	(2 065)	(36)
EBITDA	**(119 344)**	22 000	(141 344)	(41 621)	92 002	(133 623)	(7 721)	(6)
Net profit	**(140 844)**	22 000	(162 844)	(70 580)	92 002	(162 582)	(262)	—
Core headline earnings	**(140 785)**	22 000	(162 785)	(70 884)	92 002	(162 886)	101	—

Excluding the extraneous income of R22 million in the current year and R92 million in the prior year, the negative contribution to Group core headline earnings remained constant at R163 million.

The extraneous fair value movements of R22 million in the current year related to the accounting implications of the termination of the Airvantage put option obligation for the acquisition of up to 40% of the shares therein.

The extraneous income of R92 million in the prior year related to the accounting effects of the settlement of the contingent consideration relating to the disposal of the VAS operations in April 2020 and the accounting implications of the put option obligation for the acquisition of up to 40% of the shares in Airvantage.

DEPRECIATION, AMORTISATION AND IMPAIRMENT CHARGES

Depreciation, amortisation and impairment charges decreased by R16 million to R190 million. Of the latter amount, R72 million (2022: R65 million) pertained to depreciation on capital expenditure, R31 million (2022: R29 million) to depreciation raised in terms of IFRS 16 – *Leases*, R12 million (2022: R4 million) to impairments and R75 million (2022: R76 million) to the amortisation of intangible assets of which R42 million (2022: R43 million) emanated from purchase price allocations on historical acquisitions.

FINANCE COSTS

Finance costs increased by R481 million from R201 million to R682 million. Of the latter amount, R664 million was associated with interest paid on borrowed funds, R4 million with the unwinding of the lease liability in accordance with IFRS 16, and R14 million with other finance costs. In comparison, R187 million related to interest paid on borrowed funds, R6 million to the unwinding of the lease liability, and R9 million to other finance costs.

The recapitalisation transaction of Cell C in September 2022 resulted in an additional R309 million in finance costs, incurred due to increased borrowings related to airtime sale and repurchase obligations, as well as R13 million for the issue of Class A Preference Shares.

Excluding the aforementioned recapitalisation interest, finance costs increased by an additional R160 million from R201 million to R361 million. Of this increase, R119 million was a result of Comm Equipment Company Proprietary Limited securing a working capital financing facility of R1.9 billion from African Bank in November 2021, which was fully utilised by 31 May 2023. Furthermore, the remaining increase of R41 million primarily stemmed from higher finance costs due to the expansion of the Group's working capital facility from R1.15 billion to R1.4 billion on the recapitalisation date, as well as elevated interest rates compared to the previous year.

FINANCE INCOME

Finance income increased by R331 million from R81 million to R412 million. Of the latter amount, R77 million was attributable to interest received on cash resources, R83 million to a loan provided to Cell C in connection with the CEC R1.1 billion deferral amount, R235 million from a loan extended to Cell C as a component of the Debt Funding required as part of the recapitalisation transaction and R18 million from other granted loans. In the prior year, interest received on cash resources totalled R70 million, and interest on other loans granted amounted to R11 million.

STATEMENT OF FINANCIAL POSITION

Total assets increased by R1.4 billion to R14.7 billion, of which non-current assets accounted for R2.2 billion offset by a decline in current assets of R811 million.

Non-current assets included an increase in loans to associates and joint ventures, totalling R1.9 billion, along with investments in associates and joint ventures, which increased by R7 million. Additionally, advances to customers increased by R263 million and deferred taxation assets by R82 million. Loans receivable increased by R16 million, and capital expenditure net of depreciation by R29 million. However, these increases were offset by reductions of R12 million in right-of-use assets, R9 million in financial assets at fair value through comprehensive income, R20 million in financial assets at fair value through profit and loss, as well as R47 million in intangible assets and goodwill.

The increase of R1.9 billion in loans to associates and joint ventures primarily related to the recapitalisation of Cell C and comprised the following:

- Debt Funding of R1.03 billion that was required by Cell C to affect a compromise offer made by it to certain of its secured lenders. Of this amount, R915 million was accounted for as a loan to an associate and R118 million as an investment in Cell C, the latter being congruent with the fair value of the additional 9.53% shareholding acquired as part of the recapitalisation process;
- a loan of R111 million, originating from TPC's participation in the Reinvestment Instrument acquired at nominal value; and
- the CEC deferral amount, whereby the existing claim of R1.1 billion, owed by Cell C, was renegotiated to be repaid by the latter in 60 equal monthly capital instalments. This claim was reclassified from "trade and other receivables" to "loans to associates and joint ventures" at its initial fair value of R1.035 billion. Of this amount, R220 million is accounted for in current assets.

The significant net reduction in current assets included declines in trade and other receivables amounting to R1.7 billion, as well as a decrease of R1.4 billion in cash and cash equivalents. These decreases were offset by an increase in inventory amounting to R1.7 billion, advances to customers by R327 million, loans to associates and joint ventures by R215 million, and financial assets at fair value through profit and loss by R47 million.

The R1.7 billion decrease in trade and other receivables is predominately related to a decline in CEC's trade receivable balances from Cell C. This reduction was attributable to the settlement of the obligation owed to CEC, reducing it to an amount of R1.1 billion, with this deferred amount being reclassified as "loans to associates and joint ventures". Excluding the trade debtors relating to CEC, the debtor's collection period increased to 40 days compared to the 28 days reported for the year ended May 2022.

The increase in inventory of R1.7 billion was primarily attributable to the Group purchasing R1.2 billion of Cell C prepaid airtime as part of the recapitalisation transaction. This purchase was necessitated in order to assist Cell C with its working capital requirements.

Net profit attributable to equity holders amounted to R269 million, resulting in accumulated capital and reserves of R4.4 billion.

Non-current liabilities grew by R1.5 billion, comprising an increase in borrowings of R1.37 billion relating to the airtime sale and repurchase obligations totalling R278 million, the issuance of Class A Preference Shares amounting to R172 million and an increase in the non-current portion of the Group's working capital facilities of R918 million. Furthermore, financial liabilities through profit and loss increased by R62 million, deferred taxation liabilities by R19 million and lease liabilities by R14 million.

The increase in financial liabilities held at fair value through profit and loss of R62 million related to the issuance of Class B Preference Shares to the lenders and the recognition of the SPV5 derivative liability in line with the recapitalisation transaction.

Current liabilities decreased by R326 million, mainly due to a reduction in trade and other payables totalling R433 million, lease liabilities by R28 million, deferred revenue by R26 million and financial liabilities at fair value through profit and loss of R22 million. However, this decrease was offset by an increase in borrowings of R136 million and an increase in current tax liabilities of R47 million.

The reduction in trade and other payables of R433 million primarily related to a decrease in CEC's trade payable balance owed to Cell C. This decrease occurred concurrently with the decline in trade receivables, which resulted from the settlement of the obligation by Cell C to CEC to the amount of R1.1 billion. Average credit terms were 114 days, as compared to 124 days for the financial year ended 31 May 2022.

The net increase of R136 million in current borrowings is related to the current portion of the airtime sale and repurchase obligations, totalling R710 million. This increase was offset by a decrease in the current portion of the Group's working capital facilities, amounting to R574 million. This reduction resulted from extending the terms of these facilities, consequently classifying them as non-current borrowings.

The decrease in current financial liabilities held at fair value through profit and loss related to a release of R22 million due to the termination of the Airvantage put option obligation.

STATEMENT OF CASH FLOWS

Cash generated from trading operations amounted to R203 million. Working capital movements included an increase in inventory of R1.7 billion and advances to customers of R590 million. These increases were offset by decreases in trade receivables of R656 million and trade payables of R38 million. After incurring net finance costs of R490 million and taxation of R215 million, net cash utilised in operating activities amounted to R502 million.

The increase in inventory of R1.7 billion was attributable to the Group purchasing R1.2 billion of Cell C prepaid airtime as part of the recapitalisation transaction. Congruent with this acquisition of airtime, Cell C settled amounts owing to CEC resulting in a significant decrease in trade receivables of R656 million.

Net cash flows utilised in investing activities amounted to R2.4 billion, primarily attributable to the purchase of intangible assets amounting to R936 million, net loans granted to associates and joint ventures of R898 million and an increase in the investment in Cell C of R366 million.

Of the R936 million invested in intangible assets, R429 million pertained to costs incurred by the Group in terms of the subscription income-sharing arrangement, and R403 million pertained to costs incurred by the Group in terms of subscriber acquisition costs.

The net loans granted to associates and joint ventures of R898 million included net loans of R896 million relating to Cell C. This amount comprised the R915 million Debt Funding and the R111 million originating from TPC's participation in the Reinvestment Instrument acquired at nominal value, offset by R128 million of capital repayments by Cell C.

The additional investment of R366 million comprised R25 million of notes acquired in SPV1, a loan of R223 million provided to SPV4, both of which are secured by shares in Cell C, and R118 million of the new money loan attributed to the acquisition of a further 9.53% of the issued share capital of Cell C.

Cash flows generated from financing activities amounted to R1.4 billion, of which R1.5 billion related to the net increase in borrowings and R67 million from the issuance of Class B Preference Shares, the proceeds of which were applied to the Cell C recapitalisation transaction. These amounts were offset by lease payments of R42 million and the purchase of treasury shares amounting to R66 million.

Cash and cash equivalents accumulated to R1.3 billion at 31 May 2023.

FORFEITABLE SHARE SCHEME

Forfeitable shares totalling 7 985 185 (2022: 8 717 136) were issued to qualifying employees. During the year, 2 282 379 (2022: 5 245 249) shares were forfeited and 16 764 722 (2022: 1 452 062) shares vested.

INDEPENDENT AUDIT

These summary consolidated financial statements for the year ended 31 May 2023 have been audited by SizweNtsalubaGobodo Grant Thornton Inc., who expressed an unmodified opinion thereon. The auditor also expressed an unmodified opinion on the consolidated annual financial statements from which these summary consolidated financial statements were derived.

A copy of the auditor's report on the summary consolidated financial statements and of the auditor's report on the annual consolidated financial statements are available for inspection at the company's registered office, together with the financial statements identified in the respective auditor's reports.

The auditor's report does not necessarily report on all of the information contained in this announcement/financial results. Shareholders are therefore advised that in order to obtain a full understanding of the nature of the auditor's engagement they should obtain a copy of the auditor's report together with the accompanying financial information from the issuer's registered office.

APPRECIATION

The Blue Label Board would like to extend its gratitude to the staff, suppliers, customers, and business partners for their ongoing support and dedication to the Group.

For and on behalf of the Board

LM Nestadt
Chairman

BM Levy
Joint Chief Executive Officer

MS Levy
Joint Chief Executive Officer

DA Suntup* CA(SA)
Financial Director

29 August 2023

* Supervised the preparation and review of the Group's audited year-end results.

INDEPENDENT AUDITOR'S REPORT ON THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

TO THE SHAREHOLDERS OF BLUE LABEL TELECOMS LIMITED

Opinion

The Summary Consolidated Financial Statements of Blue Label Telecoms Limited, contained in the accompanying provisional report, which comprise the summarised Group Statement of Financial Position as at 31 May 2023, the Summarised Group Income Statement and Summarised Group Statements of Comprehensive Income, Changes in Equity and Cash Flows for the year then ended, and related notes, are derived from the audited Consolidated Financial Statements of Blue Label Telecoms Limited for the year ended 31 May 2023.

In our opinion, the accompanying Summary Consolidated Financial Statements are consistent, in all material respects, with the audited Consolidated Financial Statements, in accordance with the requirements of the JSE Limited Listings Requirements for provisional reports, as set out in the Basis of preparation section in the Summary Consolidated Financial Statements, and the requirements of the Companies Act of South Africa as applicable to Summary Financial Statements.

Summary Consolidated Financial Statements

The Summary Consolidated Financial Statements do not contain all the disclosures required by International Financial Reporting Standards and the requirements of the Companies Act of South Africa as applicable to Annual Financial Statements. Reading the Summary Consolidated Financial Statements and the auditor's report thereon, therefore, is not a substitute for reading the audited Consolidated Financial Statements and the auditor's report thereon.

The audited Consolidated Financial Statements and our report thereon

We have expressed an unmodified audit opinion on the audited Consolidated Financial Statements in our report dated 28 August 2023. That report also includes communication of identified key audit matters. Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Consolidated and Separate Financial Statements of the current period.

Basis for opinion

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 and Separate Financial Statements section of our report dated 24 August 2023. We are independent of the Group and company in accordance with the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of Financial Statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITOR'S REPORT ON THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Director's responsibility for the Summary Consolidated Financial Statements

The directors are responsible for the preparation of the Summary Consolidated Financial Statements in accordance with the requirements of the JSE Limited Listings Requirements for provisional reports, set out in the Basis of preparation section in the Summary Consolidated Financial Statements, and the requirements of the Companies Act of South Africa as applicable to Summary Financial Statements.

Auditor's responsibility

Our responsibility is to express an opinion on whether the Summary Consolidated Financial Statements are consistent, in all material respects, with the audited Consolidated Financial Statements based on our procedures, which were conducted in accordance with International Standards on Auditing (ISA) 810 (Revised), Engagements to Report on Summary Financial Statements.

Alex Philippou CA(SA)
SizweNtsalubaGobodo Grant Thornton Inc.
Engagement Director
Registered Auditor

29 August 2023

221 Garstfontein Road
Newlands
Pretoria
Gauteng

SUMMARISED GROUP INCOME STATEMENT

for the year ended 31 May 2023

	2023 R'000	2022 R'000
Revenue	**18 595 905**	17 395 281
Finance revenue	**322 358**	410 981
Total revenue	**18 918 263**	17 806 262
Other income	**90 176**	390 851
Direct operating costs*	**(15 435 188)**	(14 858 153)
Finance costs incurred in the generation of revenue	**—**	(17 135)
Employee compensation and benefit expense	**(945 501)**	(780 255)
Depreciation and amortisation	**(190 440)**	(174 045)
Fair value movements	**69 276**	63 246
Bad debts and expected credit loss	**(736 925)**	(327 761)
Loss on modification of financial instruments	**(57 453)**	—
Other expenses	**(585 722)**	(578 561)
Operating profit	**1 126 486**	1 524 449
Finance costs	**(682 599)**	(201 225)
Finance income	**411 540**	80 993
Reversal of impairment of investment in associate	**962 531**	—
Share of (losses)/gains from associates and joint ventures	**(1 329 747)**	8 042
Profit before taxation	**488 211**	1 412 259
Taxation	**(200 038)**	(320 262)
Profit for the year	**288 173**	1 091 997
Profit for the year attributable to:		
Equity holders of the parent	**268 966**	1 027 079
Non-controlling interest	**19 207**	64 918
Earnings per share for profit attributable to:		
Equity holders (cents)		
– Basic	**30.48**	117.13
– Diluted	**30.07**	114.14

* Direct operating expenses are the operating expenses directly attributable to the production of goods and services sold by the Group. These include, but are not limited to, the costs associated with the acquisition of airtime and handsets sold by the Group.

SUMMARISED GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 May 2023

	2023 R'000	2022 R'000
Profit for the year	**288 173**	1 091 997
Other comprehensive income:		
Items reclassified to profit or loss		
Ineffective portion of hedging instruments reclassified to profit or loss*	**(639)**	—
Effective portion of hedging instrument reclassified to profit or loss*	**(13 677)**	(2 680)
Income tax related to amounts reclassified to profit or loss	**3 770**	750
Items that may be subsequently reclassified to profit or loss		
Foreign exchange profit on translation of associates and joint ventures**	**1 646**	1 251
Gain arising on changes in fair value of hedging instruments (effective portion)	**8 693**	10 262
Income tax related to gains recognised in other comprehensive income	**(2 347)**	(2 635)
Other comprehensive (loss)/income for the year, net of tax	**(2 554)**	6 948
Total comprehensive income for the year	**285 619**	1 098 945
Total comprehensive income for the year attributable to:		
Equity holders of the parent	**266 412**	1 034 027
Non-controlling interest	**19 207**	64 918

* These items reduce finance costs.

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

SUMMARISED GROUP STATEMENT OF FINANCIAL POSITION

as at 31 May 2023

	31 May 2023 R'000	31 May 2022 R'000
ASSETS		
Non-current assets	**5 700 072**	3 499 479
Property, plant and equipment	**224 362**	195 313
Right-of-use assets	**24 577**	36 266
Intangible assets	**1 583 231**	1 665 549
Goodwill	**717 475**	681 754
Investments in associates and joint ventures[1]	**83 185**	76 147
Loans to associates and joint ventures[1]	**1 913 645**	22 745
Loans receivable	**65 386**	48 913
Advances to customers	**810 252**	547 711
Financial assets at fair value through profit or loss	**113 151**	133 293
Financial assets at fair value through other comprehensive income	**—**	8 536
Deferred taxation assets	**164 808**	83 252
Current assets	**9 018 238**	9 829 505
Loans to associates and joint ventures[1]	**241 402**	25 858
Inventories	**2 834 914**	1 143 372
Loans receivable	**38 804**	32 801
Trade and other receivables	**3 060 510**	4 743 338
Advances to customers	**1 446 950**	1 119 827
Financial assets at fair value through profit or loss	**61 028**	14 008
Financial assets at fair value through other comprehensive income	**12 914**	11 688
Current tax assets	**18 946**	15 022
Cash and cash equivalents	**1 302 770**	2 723 591
Total assets	**14 718 310**	13 328 984
EQUITY AND LIABILITIES		
Capital and reserves	**4 439 543**	4 187 598
Issued share capital and premium	**7 521 248**	7 544 531
Other reserves	**(2 877 012)**	(2 871 437)
Retained earnings	**(316 341)**	(585 307)
Total ordinary shareholders' equity	**4 327 895**	4 087 787
Non-controlling interest	**111 648**	99 811
Non-current liabilities	**2 247 191**	783 878
Deferred taxation liabilities	**319 140**	299 909
Non-current lease liability	**23 462**	9 498
Financial liabilities at fair value through profit or loss	**61 824**	—
Borrowings	**1 842 765**	474 471
Current liabilities	**8 031 576**	8 357 508
Trade and other payables	**5 636 270**	6 069 027
Deferred revenue	**87 434**	113 367
Lease liability	**9 239**	37 384
Financial liabilities at fair value through profit or loss	**—**	22 200
Current tax liabilities	**68 275**	21 467
Borrowings	**2 230 355**	2 094 000
Bank overdraft	**3**	63
Total equity and liabilities	**14 718 310**	13 328 984

[1] In order to achieve enhanced disclosure, investments in associates and joint ventures have been disaggregated from loans to associates and joint ventures. The loans are not considered to be part of the net investment in associates and joint ventures.

SUMMARISED GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended 31 May 2023

	Issued share capital and premium R'000	Retained earnings R'000	Other reserves R'000	Total ordinary shareholders' equity R'000	Non-controlling interest R'000	Total equity R'000
Balance as at 1 June 2021	7 543 436	(1 612 386)	(2 732 783)	3 198 267	35 081	3 233 348
Profit for the year	—	1 027 079	—	1 027 079	64 918	1 091 997
Other comprehensive income	—	—	6 948	6 948	—	6 948
Total comprehensive income	—	1 027 079	6 948	1 034 027	64 918	1 098 945
Treasury shares purchased	(9 301)	—	—	(9 301)	—	(9 301)
Equity compensation benefit scheme shares vested	10 396	—	(9 954)	442	(442)	—
Equity compensation benefit movement	—	—	30 446	30 446	1 832	32 278
Acquisition of non-controlling interest	—	—	(166 094)	(166 094)	28 472	(137 622)
Dividends paid	—	—	—	—	(30 050)	(30 050)
Balance as at 31 May 2022	**7 544 531**	**(585 307)**	**(2 871 437)**	**4 087 787**	**99 811**	**4 187 598**
Profit for the year	**—**	**268 966**	**—**	**268 966**	**19 207**	**288 173**
Other comprehensive loss	**—**	**—**	**(2 554)**	**(2 554)**	**—**	**(2 554)**
Total comprehensive income/(loss)	**—**	**268 966**	**(2 554)**	**266 412**	**19 207**	**285 619**
Treasury shares purchased	**(66 033)**	**—**	**—**	**(66 033)**	**—**	**(66 033)**
Equity compensation benefit scheme shares vested	**42 750**	**—**	**(41 423)**	**1 327**	**(1 327)**	**—**
Equity compensation benefit movement	**—**	**—**	**38 443**	**38 443**	**1 569**	**40 012**
Acquisition of non-controlling interest	**—**	**—**	**(41)**	**(41)**	**(5 138)**	**(5 179)**
Dividends paid	**—**	**—**	**—**	**—**	**(2 474)**	**(2 474)**
Balance as at 31 May 2023	**7 521 248**	**(316 341)**	**(2 877 012)**	**4 327 895**	**111 648**	**4 439 543**

SUMMARISED GROUP STATEMENT OF CASH FLOWS

for the year ended 31 May 2023

	2023 R'000	2022 R'000
Cash flows from operating activities		
Cash received from customers	**19 227 226**	16 698 666
Cash paid to suppliers, financiers and employees	**(19 024 350)**	(15 764 089)
Cash generated by operations	**202 876**	934 577
Interest received	**174 039**	80 993
Interest paid	**(663 908)**	(201 091)
Taxation paid	**(214 850)**	(165 710)
Net cash (utilised in)/generated from operating activities	**(501 843)**	648 769
Cash flows from investing activities		
Acquisition of intangible assets*	**(936 140)**	(1 013 334)
Proceeds on disposal of intangible assets	**4**	—
Acquisition of property, plant and equipment	**(119 167)**	(77 813)
Proceeds on disposal of property, plant and equipment	**7 847**	9 793
Acquisition of subsidiary, net of cash acquired**	**(29 707)**	—
Additional investment in and acquisition of shares in associates	**(372 609)**	(15 340)
Contingent consideration received***	**—**	117 791
Loans advanced to associates and joint ventures	**(1 093 013)**	(26 565)
Loans repaid by associates and joint ventures	**194 681**	1 805
Dividend received from associate and joint venture	**—**	5 885
Loans receivable carried at fair value repaid	**13 540**	—
Loans granted	**(65 539)**	(40 774)
Loans receivable repaid	**38 252**	27 943
Net cash utilised in investing activities	**(2 361 851)**	(1 010 609)
Cash flows from financing activities		
Interest-bearing borrowings raised	**1 867 861**	1 627 141
Interest-bearing borrowings repaid	**(381 248)**	(870 502)
Non-interest-bearing borrowings repaid	**—**	(270)
Lease repayments	**(42 032)**	(37 857)
Issuance of Class B Preference Shares	**66 859**	—
Acquisition of non-controlling interest	**—**	(11 000)
Acquisition of treasury shares****	**(66 033)**	(9 301)
Dividends paid to non-controlling interest	**(2 474)**	(30 050)
Net cash generated by financing activities	**1 442 933**	668 161
Net (decrease)/increase in cash and cash equivalents	**(1 420 761)**	306 321
Cash and cash equivalents at the beginning of the year	**2 723 528**	2 417 207
Cash and cash equivalents at the end of the year	**1 302 767**	2 723 528

* Acquisitions of intangible assets in the current period include significant cash outflows of R832 million (2022: R928 million) relating to the subscription income sharing arrangement that commenced during the 2021 financial year.

** The Group acquired 50% of Aligned Partnered Solutions Proprietary Limited's share capital on 31 March 2023 for a purchase consideration of R500. The Group further acquired 60% of Lipa Payments Proprietary Limited's share capital on 24 April 2023 for a purchase consideration of R30 million.

*** Prior year settlement of the contingent consideration relating to the disposal of the VAS operations in April 2020.

**** Approximately 10 million shares were repurchased over the period 25 August 2022 to 19 September 2022 at a weighted average price of R6.58 per share.

SHARE PERFORMANCE

for the year ended 31 May 2023

USE OF ADJUSTED MEASURES

The measures listed below are presented as management believes it to be relevant to the understanding of the Group's financial performance. These measures are used for internal performance analysis and provide additional useful information on underlying trends to equity holders. These measures are not defined terms under IFRS and may therefore not be comparable with similarly titled measures reported by other entities. It is not intended to be a substitute for, or superior to, measures as required by IFRS.

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

	Attributable earnings		Cents per share	
	2023 R'000	2022 R'000	**2023**	2022
Headline earnings per share				
Basic	**370 356**	1 028 911	**41.97**	117.34
Diluted	**370 356**	1 028 911	**41.41**	114.34
Core	**401 961**	1 061 080	**45.55**	121.01
Earnings attributable to ordinary equity holders				
Basic	**268 966**	1 027 079	**30.48**	117.13
Diluted	**268 966**	1 027 079	**30.07**	114.14

(b) Weighted average number of shares

Weighted average number of shares	2023 '000	2022 '000
Weighted average number of ordinary shares	**882 530**	876 857
Adjusted for forfeitable shares	**11 835**	23 006
Weighted average number of ordinary shares for diluted earnings[1]	**894 365**	899 863

[1] The same weighted average number of shares for basic earnings per share is used for core headline earnings per share.

(c) Analysis of headline earnings

	Profit/(loss) before tax and non-controlling interest R'000	Tax R'000	Non-controlling interest R'000	Headline earnings R'000
2023				
Profit attributable to equity holders of the parent	**488 211**	**(200 038)**	**(19 207)**	**268 966**
Net profit on disposal of property, plant and equipment	**(1 919)**	**518**	**27**	**(1 374)**
Impairment of property, plant and equipment	**12 145**	**(3 280)**	**—**	**8 865**
Reversal of impairment of investment in associate	**(962 531)**	**—**	**—**	**(962 531)**
Net loss on disposal of property, plant and equipment in associate/joint venture	**6 403**	**—**	**—**	**6 403**
Impairment of property, plant and equipment in associate	**330 129**	**—**	**—**	**330 129**
Impairment of intangible assets in associate	**516 009**	**—**	**—**	**516 009**
Impairment of leased assets in associate	**203 889**	**—**	**—**	**203 889**
Headline earnings				**370 356**
2022				
Profit attributable to equity holders of the parent	1 412 259	(320 262)	(64 918)	1 027 079
Profit on disposal of property, plant and equipment	(1 383)	387	27	(969)
Profit on disposal of property, plant and equipment in joint venture	(32)	—	—	(32)
Impairment of property, plant and equipment	3 580	(1 003)	—	2 577
Remeasurement of non-current assets held-for-sale	157	(44)	(29)	84
Profit on disposal of intangible assets in joint venture	(270)	—	—	(270)
Dilution of holding in joint venture	545	—	(103)	442
Headline earnings				1 028 911

(d) Analysis of core headline earnings

	2023 R'000	2022 R'000
Reconciliation between net profit for the period and core headline earnings for the year:		
Net profit for the year	**268 966**	1 027 079
Amortisation of intangibles raised through business combinations net of tax and non-controlling interest	**31 605**	32 169
Core net profit for the year	**300 571**	1 059 248
Headline earnings adjustments	**101 390**	1 832
Core headline earnings	**401 961**	1 061 080

SEGMENTAL SUMMARY

For the year ended May 2023	Total R'000	Africa Distribution R'000	International R'000	Solutions R'000	Corporate R'000
Total segment revenue	**24 958 278**	**24 470 272**	**—**	**283 366**	**204 640**
Internal revenue	**(6 040 015)**	**(5 826 462)**	**—**	**(8 913)**	**(204 640)**
Revenue	**18 918 263**	**18 643 810**	**—**	**274 453**	**—**
Operating profit/(loss) before depreciation, amortisation	**1 316 926**	**1 363 916**	**31 995**	**40 359**	**(119 344)**
Profit/(loss) for the year attributable to equity holders of the parent	**268 966**	**360 771**	**24 104**	**24 935**	**(140 844)**
Amortisation of intangibles raised through business combinations net of tax and non-controlling interest	**31 605**	**31 605**	**—**	**—**	**—**
Headline earnings adjustment	**101 390**	**101 026**	**—**	**305**	**59**
Core headline earnings for the year	**401 961**	**493 402**	**24 104**	**25 240**	**(140 785)**
For the year ended May 2022					
Total segment revenue	24 531 675	24 023 222	—	254 571	253 882
Internal revenue	(6 725 413)	(6 470 619)	—	(912)	(253 882)
Revenue	17 806 262	17 552 603	—	253 659	—
Operating profit/(loss) before depreciation, amortisation	1 698 494	1 700 844	11 768	27 503	(41 621)
Profit/(loss) for the year attributable to equity holders of the parent	1 027 079	1 058 951	9 649	29 059	(70 580)
Amortisation of intangibles raised through business combinations net of tax and non-controlling interest	32 169	32 169	—	—	—
Headline earnings adjustment	1 832	1 708	—	428	(304)
Core headline earnings for the year	1 061 080	1 092 828	9 649	29 487	(70 884)

REVENUE

for the year ended 31 May 2023

	Total		Africa Distribution		Solutions	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Revenue from contracts with customers	**17 654 965**	16 552 919	**17 380 512**	16 299 260	**274 453**	253 659
Prepaid airtime, data and related revenue	**13 009 793**	14 556 809	**13 009 793**	14 556 809	**—**	—
Postpaid airtime, data and related revenue	**155 568**	106 285	**155 568**	106 285	**—**	—
Prepaid and postpaid SIM cards	**460 280**	504 111	**460 280**	504 111	**—**	—
Services	**441 683**	394 253	**167 230**	140 594	**274 453**	253 659
Electricity commission	**282 903**	336 197	**282 903**	336 197	**—**	—
Handsets, tablets and other devices	**2 770 279**	274 447	**2 770 279**	274 447	**—**	—
Other revenue*	**534 459**	380 817	**534 459**	380 817	**—**	—
Subscription income share	**940 940**	842 362	**940 940**	842 362	**—**	—
Revenue	**18 595 905**	17 395 281	**18 321 452**	17 141 622	**274 453**	253 659
Finance revenue	**322 358**	410 981	**322 358**	410 981	**—**	—
Total revenue	**18 918 263**	17 806 262	**18 643 810**	17 552 603	**274 453**	253 659

* Other revenue predominantly includes audit projects on municipalities and commissions earned on the sale of betting vouchers, bus ticketing and the facilitation of bill payments.

INVESTMENTS IN AND LOANS TO ASSOCIATES AND JOINT VENTURES

INVESTMENTS IN AND LOANS TO CELL C LIMITED

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 Limited (Cell C) for a purchase consideration of R5.5 billion. On recapitalisation, BLT holds 49.53%, refer below to "Shareholding in Cell C".

Critical accounting judgements and assumptions

(a) 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.

(b) Classification of significant associates

Assessment of control over Cell C

BLT holds 49.53% of the shareholder voting rights of Cell C and is able to appoint four out of 12 on the Cell C Board of Directors, where each director has one vote. It has been determined that the Cell C Board makes the decisions about the activities that significantly affect the returns of Cell C (the relevant activities).

As a result of loans made by TPC to SPV1 and SPV4, TPC is entitled to obtain additional shares comprising 13.66% in aggregate in Cell C at any time from the SPVs in settlement of the loans. Should TPC wish to obtain any of these additional shares, and hence the corresponding voting rights, the Group's external legal advisors have advised that it can only do so lawfully with the prior approvals of the Competition Commission and ICASA – as acquiring additional voting rights would result in TPC obtaining control over Cell C. According to the Group's external legal advisors, it is unlawful to give effect to a transaction that requires the approval of the Competition Commission before such approval is granted, and doing so could result in the transaction being set aside. Furthermore, the granting of the regulatory approvals is not a formality or within TPC's control, hence TPC does not, on its own, have the practical ability to obtain any additional shares (and voting rights). Therefore, management has concluded that TPC's rights under the loan agreements to obtain additional Cell C shares are not substantive until such approvals have been granted. Consequently, the potential voting rights of 13.66% have been excluded from the assessment of whether the Group has control over Cell C.

SPV1 and SPV4 hold the voting rights attached to the aggregate 13.66% equity interest. Even though TPC bears the economic risks and rewards of these shares (subject to upper limits of the amounts repayable under the loans), it does not have the ability to direct the way in which the corresponding voting rights in Cell C are exercised. These decisions lie with the Directors of SPV1 and SPV4, which are appointed by Albanta Trading 109 Proprietary Limited (Albanta), over which BLT has no control.

Although the SPVs will only benefit from the aggregate 13.66% equity interest in Cell C to the extent that they realise more than the amounts repayable to TPC under the loans, whether they exercise their Cell C voting rights in line with the way that TPC exercises its 49.53% Cell C voting rights or not, management is of the view that this would not affect the SPVs in any way. Similarly, whether the SPVs vote in line with TPC or not, management is of the view that this would have no impact on whether TPC elects to obtain the additional shares in settlement of its loans, subject to receiving the requisite regulatory approvals. Since management is of the view that the SPVs do not have any incentive to exercise their Cell C voting rights in the way that TPC would want them to such that TPC can rely on them to do so, it has been concluded that the SPVs are not de facto agents of TPC. Furthermore, Albanta holds other shares (5.50%) in Cell C, therefore management believes that Albanta would exercise all its Cell C voting rights in the same way and management is of the view that there is no incentive or reason why Albanta would necessarily vote in line with TPC.

Based on historical attendance at Cell C shareholder meetings, the fact that the shares of Cell C are not widely held (there are only nine shareholders currently; six if one recognises that SPV1, SPV4 and SPV5 are all subsidiaries of Albanta), and that Gramercy and Nedbank now hold 7.53% and 6.09% of Cell C, respectively, management is of the view that there is currently no basis for concluding that TPC has de facto control of Cell C at a shareholder level. Furthermore, it is the Memorandum of Incorporation (MOI) of Cell C that enables TPC to appoint only four of the 12 Directors, and changes to the MOI require shareholder approval of at least 82% including that of Gramercy and Nedbank, for as long as they are permitted to appoint a director to the Cell C Board. Therefore, even if TPC had de facto control at a shareholder level, it could not, on its own, change the MOI to enable it to appoint the majority of the Directors. Management has thus concluded that the Group does not have control over Cell C and continues to exercise significant influence. Therefore the Group continues to account for Cell C as an associate.

(c) 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 with MTN 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 has positively impacted the cost base and anticipated future cash flows.

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.

A roaming agreement with Vodacom was concluded in November 2020 which is aligned to Cell C's revised network strategy, aimed at managing capacity in a more scalable and cost-efficient manner through a roaming model. Contract and broadband customers have been transitioned in stages to roam on the Vodacom network. The strategic vision is to differentiate Cell C by focusing on innovative products and services without being owners of capital intensive infrastructure. This creates more flexibility and capacity to deliver the right quality of service to our current and future customers.

Cell C embarked on a strategy to reconsider its current service offering, whereby Cell C identified the need to either wind down or restructure the service offering being provided to its postpaid mobile telecommunication business (the base). During the 2021 financial year, the Group, through its subsidiary CEC, entered into an arrangement with Cell C to facilitate Cell C's operation of the base. The agreement commenced on 1 November 2020 for an initial period of five years, with CEC having the right to renew for a further four years. CEC is entitled to receive a share of the subscription income generated by Cell C from a subset of postpaid subscribers that sign up, extend or upgrade their subscriptions with Cell C after 1 November 2020 (New and Upgrade subscribers) plus certain fixed and variable payments. Cell C will remain entitled to the subscription income of existing subscribers at 31 October 2020 for the remainder of the subscribers' contract and a share of the ongoing revenue of New and Upgrade subscribers. The aim of the reorganisation would be for the base to remain intact and grow in the future, and for Cell C to have limited downside risk on the base.

Cell C has implemented a turnaround strategy, focusing on operational efficiencies, reducing operational expenditure and optimising traffic. This includes a significant reduction in capital expenditure and a conversion of a fixed cost infrastructure-based network to a variable operational expenditure model. This, together with the recapitalisation of the current debt structure (refer below for further information in this regard), will result in a significant improvement of its liquidity and ensure the long-term sustainability of Cell C.

OVERVIEW OF THE CELL C RECAPITALISATION TRANSACTION

On 26 August 2021, TPC concluded a term sheet for an Airtime Purchase transaction with Investec Bank Limited, FirstRand Bank Limited (acting through its Rand Merchant Bank division) and other financiers, the proceeds of which were intended to be utilised for the recapitalisation of Cell C. This arrangement was subject to the conclusion of all legal documentation and fulfilment of all conditions precedent under such legal documentation, which occurred at the end of September 2022.
On 15 March 2022, Blue Label concluded a non-binding term sheet (Umbrella Restructure Term Sheet) with Cell C and various Cell C financial stakeholders (including certain shareholders and creditors of Cell C). In terms of the Umbrella Restructure Term Sheet, Cell C was to be restructured and refinanced (the Recapitalisation Transaction) with the purpose of deleveraging its balance sheet, providing it with liquidity with which to operate and grow its businesses and to position itself to achieve long-term success for the benefit of its customers, employees, creditors, shareholders and its other stakeholders. The Umbrella Restructure Term Sheet was non-binding, save for stand-still provisions and certain provisions of a general nature which were binding. The binding long-term agreements and the recapitalisation process, the completion of which endured for longer than initially anticipated, was effective and closed end September 2022.

The salient terms of the Recapitalisation Transaction are set out below:

Capital and debt restructure

In order to facilitate the restructuring of Cell C's debt owing to certain secured lenders totalling c.R7.3 billion, with such amount being fixed as at November 2019, TPC loaned to Cell C an amount required to effect a compromise offer made by Cell C to certain of its secured lenders of a maximum amount of up to R1.46 billion (TPC Debt Funding). TPC's actual funding obligation in respect of the compromise offer, however, amounted to R1.03 billion. The TPC Debt Funding was provided by TPC to Cell C in the form of a secured loan. Cell C utilised the TPC Debt Funding to settle the claims of secured lenders by paying an amount of 20c to the rand.

INVESTMENTS IN AND LOANS TO ASSOCIATES AND JOINT VENTURES CONTINUED

INVESTMENTS IN AND LOANS TO CELL C LIMITED CONTINUED

OVERVIEW OF THE CELL C RECAPITALISATION TRANSACTION CONTINUED

Certain secured lenders indicated that they wish to remain invested in Cell C. These secured lenders were entitled to loan an amount equal to the 20c received, back to Cell C under a new loan arrangement (Reinvestment Instrument). The Reinvestment Instrument, which is interest bearing and secured, has an aggregate capital face value equal to 2.75 times of the amount advanced. In addition, the participating lenders were entitled to share pro rata in a fresh issue of ordinary shares in Cell C at a nominal value. All shareholders of Cell C diluted proportionately to enable the issuance of these ordinary shares to the participating lenders.

Simultaneously but separately with the issuance of the Reinvestment Instrument, Cell C, pursuant to a rights issue at nominal value, allotted and issued shares to TPC. Following such issue and various other issues of shares to be made by Cell C to third parties at nominal value pursuant to the Proposed Transaction, TPC holds 49.53% of the shares in Cell C, inclusive of those shares which TPC were entitled to, pursuant to the Reinvestment Instrument.

In addition, CEC (a wholly owned subsidiary of TPC) deferred an amount of R1.1 billion owed by Cell C and some of its subsidiaries to it on the date of implementation of the Recapitalisation Transaction, which amount will be repaid in equal monthly instalments over 60 months. At year-end, Cell C has met its payment obligations.

Liquidity requirements

In order to further assist Cell C with its working capital requirements, TPC:

- purchased Cell C prepaid airtime for a purchase price of R1.2 billion (including VAT) on the Effective Date of the Recapitalisation Transaction; and
- will purchase, by way of four further quarterly payments of R300 million (including VAT), additional prepaid airtime, with each such quarterly payment payable at the beginning of each calendar quarter. The first such quarterly payment will be made at the beginning of the 13th month following the recapitalisation of Cell C and subsequent payments will be made at the commencement of each quarter thereafter.

Furthermore, TPC undertook to purchase certain minimum levels of prepaid airtime from Cell C in accordance with an agreed monthly schedule or otherwise in accordance with market requirements.

The prepaid airtime to be acquired by TPC from Cell C pursuant to the above prepaid airtime transactions, forms part of the average monthly prepaid airtime acquisitions by TPC of Cell C prepaid airtime in the ordinary course of business.

Other inter-related transactions

In addition to the conclusion of the Recapitalisation Transaction, the following transactions were concluded. Under these further agreements TPC:

- acquired from certain funders to Cell C their right to reinvest in the Reinvestment Instrument for a purchase consideration of R1 from each such funder. Following such acquisition by TPC of such rights, TPC invested an aggregate amount of R111 million into Cell C via the Reinvestment Instrument;
- acquired debt notes in Cedar Cellular Investment 1 (RF) Proprietary Limited (SPV1), a shareholder in Cell C, for a purchase consideration of USD500 000 plus R16 million;
- acquired a credit claim of USD6 million against Cell C for an amount of USD4 million. This claim was subject to a compromise as between TPC and Cell C;
- acquired certain trade claims against Cell C, which claims were acquired for an aggregate amount of R12 million plus USD2.2 million and were then subject to a compromise as between TPC and Cell C;
- advanced an amount of R223 million to K2021889191 (South Africa) Proprietary Limited (SPV4), which amount SPV4 utilised to acquire from the joint liquidators of Magnolia Cellular Investments 2 (RF) Proprietary Limited (in liquidation) (SPV2), shares in Cell C owned by SPV2, such shares being 5.47% of the shares in Cell C post Recapitalisation. SPV2 used the proceeds of the aforesaid sale to compromise and settle all unsubordinated claims which lenders had against it;
- disposed of such shares in Cell C as equates to 5% post recapitalisation equity in Cell C to SPV4 on loan account for R204 million. The loan to SPV4 is secured by the shares in Cell C held by SPV4;
- will loan an aggregate amount of R275 million to K2022559963 (South Africa) Proprietary Limited (SPV5) between 2024 and 2026, in return for a claim of R699 million. SPV5 will apply the loaned amount of R275 million to settle, in full, the above third-party claim on behalf of Cell C. In return for SPV5 undertaking such obligations on behalf of Cell C, it allotted and issued 10% of its share capital to SPV5. Such shares were provided by SPV5 to TPC as security for the above loan. Following the settlement of the claim of R699 million to TPC, TPC has a right to share in 50% of any economic benefit generated by SPV5 in excess of the aforementioned R699 million.

TPC airtime purchase transactions and working capital facility

TPC entered into agreements with Investec Bank Limited (acting through its Investment Banking Division: Corporate Solutions), FirstRand Bank Limited (acting through its Rand Merchant Bank division) and another financier (lenders):

- pursuant to which TPC sold Cell C prepaid airtime, with a face value of R2.115 billion, to the lenders for a purchase consideration of R1.692 billion (including VAT). TPC has a repurchase obligation in respect of this airtime, payable in 48 equal bi-monthly instalments;
- to amend the terms of its working capital facility (Facility A) that existed at the time. The working capital facility has been increased from R1.125 billion to R1.4 billion (facility A, facility B and general banking facility) and will be settled in two tranches. Facilities A and B will be amortised at R20 million per month collectively from months 13 to 24 with the balance and the general banking facility being settled as a bullet at the end of 24 months; and
- whereby TPC issued to the lenders, two classes of preference shares for a nominal consideration. The first class of preference share affords the holders of such preference shares a right to 15% of the upside realised by TPC on the TPC Debt Funding (Preference Share A) and the second class the right to all amounts (dividends and sale proceeds) received by TPC from 5% of its shareholding in Cell C (Preference Share B).

Additionally, TPC sold to a third party Cell C prepaid airtime for a purchase consideration of R250 million (including VAT). TPC has a repurchase obligation in respect of this airtime, payable in 18 equal monthly instalments.

ACCOUNTING IMPLICATIONS OF THE CELL C RECAPITALISATION TRANSACTION

TPC borrowings – from lenders

The bank borrowings of R1.471 billion were structured as:

i) an airtime sale and repurchase;
ii) the issue of Class A Preference Shares; and
iii) the issue of Class B Preference Shares.

i. Airtime sale and repurchase

Refer to the borrowings note.

TPC sold Cell C airtime vouchers with an aggregate face value of R2.115 billion (including VAT) for cash of R1.692 billion (including VAT) (R1.471 billion, excluding VAT) to the lenders. TPC will repurchase the airtime vouchers in 48 semi-monthly tranches from October 2022 to September 2024. After the first repurchase payment of R44.8 million (including VAT), the semi-monthly repurchase payments are R40.4 million (including VAT). This represents an implicit interest rate of 13.6%. At year-end, TPC has repurchased stock with an aggregate face value of R705 million (including VAT).

ii. Issue of Class A Preference Shares

Refer to the borrowings note.

TPC issued Class A Preference Shares to the lenders for a nominal issue price. The shares are redeemable at the issue price, carry a mandatory preference dividend, and have no other participation rights. The preference dividend is indexed to 15% of the 'upside' realised by TPC on the loan to Cell C (refer to "Loans to Cell C"). TPC has no obligation to pay any preference dividend unless the equivalent amount is received from Cell C.

iii. Issue of Class B Preference Shares

Refer to the financial instruments at fair value through profit or loss note.

TPC issued Class B Preference Shares to the lenders for a nominal issue price. The shares are redeemable at the issue price, carry a mandatory preference dividend, and have no other participation rights. The preference dividend is indexed to 10.01% of TPC's shareholding in Cell C immediately after the Cell C recapitalisation, which is equivalent to a 5% shareholding in Cell C. TPC has no obligation to pay any preference dividend unless the equivalent amount is received from Cell C or from an exit event.

TPC borrowings – from other third parties

Refer to the borrowings note.

The borrowings were structured as an airtime sale and repurchase.

iv. Airtime sale and repurchase

TPC sold Cell C airtime vouchers with an aggregate face value of R315 million (including VAT) for cash of R250 million (including VAT) (R217 million, excluding VAT) to the third party. TPC will repurchase the airtime vouchers in 18 equal monthly tranches of R16.89 million (including VAT) from October 2022 to March 2024. This represents an implicit interest rate of 25.75%. At year-end, TPC has repurchased stock with an aggregate face value of R144.4 million (including VAT).

INVESTMENTS IN AND LOANS TO ASSOCIATES AND JOINT VENTURES CONTINUED

INVESTMENTS IN AND LOANS TO CELL C LIMITED CONTINUED

Accounting implications of the Cell C recapitalisation transaction continued

Loans to Cell C

Refer to the summary of investments in and loans to Cell C, other associates and other joint ventures note.

TPC provided funding to Cell C in the form of two loans.

i. Debt funding

TPC advanced R1.03 billion to Cell C. The total capital amount to be repaid is R2.8 billion. The difference between the two, as well as any interest on this difference, is the 'upside' to which the mandatory preference dividends on the Class A Preference Shares are indexed (refer to "Issue of Class A Preference Shares").

The amount advanced is to be repaid by Cell C at the end of the 42nd month after the recapitalisation date, and the balance of the total capital amount at the end of the 66th month.

The loan bears no interest for the first 24 months. Thereafter the total capital amount bears interest at a fixed rate of 10% per annum until month 42, and thereafter the outstanding amount bears interest at prime plus 3% until month 66, payable monthly.

ii. Reinvestment Instrument

TPC invested an aggregate amount of R111 million into Cell C via the Reinvestment Instrument. The total capital amount to be repaid is R306 million.

The total capital amount is to be repaid by Cell C at the end of the 42nd month after the recapitalisation date.

The loan bears no interest for the first 24 months after the recapitalisation date and thereafter the total capital amount bears interest at a fixed rate of 10% per annum. Interest payments are payable monthly.

Loan to SPV4

Refer to the summary of investments in and loans to Cell C, other associates and other joint ventures note.

TPC advanced R223 million to SPV4, which SPV4 used to acquire a 5.47% shareholding in Cell C from SPV2. SPV2 used the proceeds to repay certain of its debts after which it was liquidated. The loan is interest free and is repayable on demand. The only asset securing this loan is the 5.47% shareholding in Cell C which TPC can acquire in settlement of its loan. If TPC elected to acquire these additional shares, it would first require the prior approval of the Competition Commission of South Africa and ICASA as such acquisition would result in TPC acquiring control of Cell C.

Sale of a 5% shareholding in Cell C to SPV4 on loan account

Prior to the effective date of the recapitalisation, TPC sold a 5% shareholding (in terms of post-recapitalisation shareholding) in Cell C to SPV4 thereby divesting itself of the ability to direct the voting rights attached to these shares. The shares were sold on loan account for R204 million which is repayable on demand on an interest-free basis. The only security for this loan is the 5% shareholding in Cell C which TPC can acquire in settlement of its loan. SPV4 is required to pay to TPC all payments it receives or realises on this 5% shareholding in Cell C towards settlement of the loan. In this way TPC retains the economic interest in this 5% shareholding in Cell C. If TPC elected to acquire these additional shares, it would first require the prior approval of the Competition Commission of South Africa and ICASA as such acquisition would result in TPC acquiring control of Cell C.

Although TPC has not retained the voting rights attached to this 5% shareholding in Cell C, it has retained substantially all the risks and rewards of ownership. TPC continues to recognise the economic interest of this shareholding as part of the investment in associate and to equity account it. Accordingly, the overall percentage interest in Cell C that is equity accounted reflects TPC's economic interest (and not only voting interest) which includes this economic interest of 5%. The loan does not meet criteria to be classified as a financial asset at amortised cost as it represents an additional interest (without voting rights) in these shares. Since Cell C is accounted for as an associate, TPC's additional interest in Cell C has also been accounted for as part of the investment in associate and equity accounted.

The assessment of control is concerned with substantive rights as it relates to decisions about the direction of the relevant activities of the investee, and therefore, it is management's view that the additional interest without the additional right to vote, together with the operational barriers which prevent the Group from exercising its rights, will not change its assessment of whether Cell C is an associate, until such rights become substantive.

Shareholding in Cell C

TPC received additional shares from Cell C for a nominal amount.

Following the recapitalisation of Cell C, TPC has a shareholding and voting rights of 49.53% in Cell C, as well as additional interests of 13.66% , derived as follows:

	Percentage
Pre-recapitalisation shareholding	45.00
Sale of shares (SPV4)	(5.00)
Net new issue	9.53
Dilution	(29.61)
New issue	39.14
Post-recapitalisation shareholding	49.53
Post-recapitalisation shareholding without voting rights	13.66
SPV1	3.19
SPV4 – Loan to SPV4	5.47
SPV4 – Sale of a 5% shareholding in Cell C to SPV4 on loan account	5.00
Total economic interest	63.19

Percentage of Cell C equity accounted

Up until 22 September 2022, the Group had a 45% shareholding in Cell C which was held via TPC, and which represented the percentage interest in Cell C that was equity accounted up to that date. Post the Cell C recapitalisation, Cell C continues to be an associate of the Group with 49.53% participatory (with voting rights) shareholding therein. When applying the equity method to investments in associates, the carrying amount is increased or decreased to recognise the investor's share of the associate's profit or loss since the date of acquisition. An investor's interest in an associate is determined solely on the basis of existing ownership interests and does not reflect the possible exercise or conversion of potential voting rights or other derivatives, unless they currently give the investor access to returns associated with an ownership interest. As a result of its transactions with SPV1 and SPV4, in substance, TPC has additional interests of 13.66% (subject to certain caps, being the amounts to be repaid by the SPVs in respect of the loans from TPC) in the equity of Cell C (but without the corresponding voting rights). The caps have not become effective as yet. Therefore, since the date of the recapitalisation the Group has equity accounted 63.19% of the earnings of Cell C.

Purchase of certain trade claims against Cell C

TPC acquired several trade claims held by two parties against Cell C.

Claims of one of the parties were acquired for cash payments totalling USD4 million (R65 million). These claims were settled in full by Cell C by providing TPC with airtime vouchers with an aggregate face value of R75.8 million (including VAT).

Claims of the other party of R153 million were acquired for cash payments totalling R53 million. TPC agreed to a compromise with Cell C which reduced the amount owing by Cell C by 45%, down to R84 million. The balance is to be repaid by Cell C on an interest-free basis from the 25th month after the date of recapitalisation. On a quarterly basis from this date TPC is entitled to receive as settlement 11% of any excess cash held by Cell C above an amount of R700 million until the debt is repaid.

Deferred repayment terms of an amount of R1.1 billion owing by Cell C to CEC

Refer to the summary of investments in and loans to Cell C, other associates and other joint ventures note.

An existing claim of R1.1 billion by CEC against Cell C will be repaid by Cell C in 60 equal monthly instalments, plus interest on the outstanding amount at a fixed rate of 12% per annum. At year-end, Cell C has met its payment obligations.

INVESTMENTS IN AND LOANS TO ASSOCIATES AND JOINT VENTURES CONTINUED

INVESTMENTS IN AND LOANS TO CELL C LIMITED CONTINUED

Accounting implications of the Cell C recapitalisation transaction continued

Bulk airtime purchases from Cell C

TPC purchased airtime vouchers from Cell C with a face value of R1.992 billion (including VAT) for a cash payment of R1.2 billion (including VAT).

TPC will purchase, by way of four further quarterly payments of R300 million (incl. VAT), with a face value of R498 million (including VAT), additional pre-paid airtime, with each such quarterly payment payable at the beginning of each calendar quarter. The first such quarterly payment will be made at the beginning of the 13th month following the recapitalisation of Cell C and subsequent payments will be made at the commencement of each quarter thereafter.

In addition, TPC is required to make minimum monthly purchases of airtime vouchers from Cell C for a period of 24 months from the date of the Cell C recapitalisation. For each of the first 12 months, the minimum purchase is airtime with a face value of R427 million (including VAT), and for each of the second 12 months it is airtime with a face value of R378 million (including VAT). The cash purchase price payable is at a discount of 6% to the face value of the airtime. The minimum monthly purchases will be reduced by R125 million (including VAT) per month until TPC's airtime repurchase obligation towards the funders has been settled. Furthermore, if in any calendar quarter following the effective date of the Cell C recapitalisation, Cell C's actual MVNO Revenue is in excess of the MVNO Revenue for the relevant period as stated in the Agreed Financial Base Case, then for the following quarter the minimum monthly purchase requirement will be reduced by one-third of such excess.

Restricted inventory

Of the carrying value of inventory as of 31 May 2023, R1 billion (excluding VAT) is restricted as it is held by the funders and other third parties under the airtime sale and repurchase agreements which form part of TPC's borrowings in connection with the Cell C recapitalisation, as detailed above. As a result of TPC's repurchase obligation, the airtime stock that was sold to the funders has continued to be recognised as TPC's stock, and the repurchase obligation has been recognised as borrowings. As airtime stock is repurchased it becomes unrestricted and is available to be sold. During the next 12 months, TPC is required to repurchase R787.4 million (excluding VAT) of the restricted airtime.

Included in the carrying value of inventory as of 31 May 2023 are amounts that have been purchased to date (and not yet sold) by TPC from Cell C as part of the Cell C recapitalisation as detailed above. TPC has the right to sell this airtime stock without restriction before 28 September 2024. However, there are certain restrictions regarding TPC's ability to dispose of any of this airtime that is still on hand at that date (which carrying value of airtime management believes will be negligible), these restrictions fall away from 28 March 2026 or earlier should certain trigger events occur.

Airtime purchase agreement

To provide Cell C with the funds to settle an aggregate amount of R197 million owing to a lessor, TPC agreed to purchase additional airtime from Cell C. Airtime with a face value of R645 million was purchased by TPC before 31 May 2023 for a cash purchase price of R161 million (including VAT), and airtime with a face value of R145 million will be purchased by TPC in September 2023 for a cash purchase price of R36 million (excluding VAT). TPC is only permitted to sell the airtime in specified tranches of face value, on specified dates, as follows: R114 million in February 2025, R8 million in February 2027, R208 million in February 2028, and R230 million in both February 2029 and in February 2030.

Acquisition of additional notes in SPV1

Refer to the summary of investments in and loans to Cell C, other associates and other joint ventures note.

TPC acquired additional notes comprising 72% of the issued notes in SPV1 for R25 million. The notes have a face value of USD201 million. The only asset that SPV1 has is a 4.04% shareholding in Cell C which has been pledged as security for the repayment of the notes. The redemption date of 2 August 2022 has passed, as such TPC can demand repayment of its notes at any time and can acquire 79% of the Cell C shares held by SPV1, which constitutes a 3.19% interest in Cell C, as settlement thereof. Prior to acquiring these additional shares, TPC would first require the approval of the Competition Commission of South Africa and ICASA as such acquisition would result in TPC acquiring control of Cell C.

SPV5 derivative liability

Refer to the financial instruments at fair value through profit or loss note.

A debt owing to a lessor by Cell C was transferred into a new special purpose vehicle (SPV5) in exchange for a 10% shareholding in Cell C (being the only asset of the SPV). SPV5 is required to repay the debt of R275 million in tranches from 31 December 2024 to December 2026. BLT issued a guarantee in favour of the lessor for the repayment of its debt, and TPC has committed to provide SPV5 with the necessary funding as and when it is required to make the payments of R275 million to the lessor, in return for a claim of R699 million in SPV5. TPC's loan will be repayable on demand at an amount

equal to: i) the capital advanced of R275 million, plus ii) R424 million, plus iii) 50% of the fair value of the Cell C shares held by SPV5 in excess of i) and ii).

The Cell C shares held by SPV5 are pledged as security in favour of TPC, however, SPV5 is permitted to sell the Cell C shares prior to TPC advancing it any funds provided that the net proceeds exceed R375 million. If SPV5 disposes of its shares in Cell C, then R275 million of the net proceeds needs to be used to settle the lessor and R100 million is to be paid to TPC as an irrevocable and unconditional break fee. Once TPC has advanced funds to SPV5, SPV5 is precluded from selling the Cell C shares without TPC's consent, but TPC has no rights with respect to directing the voting rights attached to the shares. In the event of default, TPC would be able to acquire the 10% shareholding in Cell C in settlement of its loan, but only with the prior approval of the Competition Commission of South Africa and ICASA as such acquisition would result in TPC acquiring control of Cell C. Such rights are not substantive as the Group does not have the practical ability to exercise its rights as it relates to SPV5.

Impairment of associates and joint ventures

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.

The following investments were tested for impairment in line with IAS 36, by comparing the recoverable amount against the carrying value of the investments:

Valuation of Cell C and impairment reversal

The value-in-use of Cell C as at 30 November 2022 equated to R1.5 billion, of which TPC's share amounted to R962.5 million.

Of the accumulated impairment of R2.5 billion (refer to accumulated impairment on page 33), R962.5 million was accounted for as a reversal of impairment of investment in associate. At year-end there was no further adjustment required.

The key assumptions applied in determining the value-in-use calculation as at 30 November 2022 were as follows:

	November 2022		
	Average EBITDA margin %	Terminal growth rate %	Pre-tax discount rate %
Cell C Limited	**18.3**	**4.2**	**39.0**

As a result of an indication of a reversal of the previous impairment due to the recapitalisation transaction, an internal valuation was performed in order to determine the value-in-use of Cell C based on cash flow projections incorporated in its five-year 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. The discount rates used are pre-tax and reflect specific risks related to Cell C. The valuation incorporates the effects of the recapitalisation, which was effective end September 2022.

Considering Cell C have recently undertaken a financial recapitalisation, management was required to apply a probability of distress overlay to the discounted cash flow valuation. Assumptions related to the Moody's rating of both Cell C and BLT were taken into account, given the strategic relationship between the two companies.

The Prepaid Company's equity share of the value as at 30 November 2022 reflected a partial recovery following the implementation of the recapitalisation.

The recovery in value is attributable to the following:

a. a significant decrease in interest-bearing borrowings in line with a compromise offer made by Cell C to certain of its secured lenders in line with the recapitalisation transaction;

b. an increase in cash flow generation over the forecast period due to improved trading on the back of less constrained cash flows, however this was more than negated by the effects of the increase in the discount rate;

c. a decrease in the value of capitalised finance lease contracts due to the restructuring thereof; and

d. an increase in the value of the assessed loss tax shield due to earlier utilisation.

INVESTMENTS IN AND LOANS TO ASSOCIATES AND JOINT VENTURES CONTINUED

INVESTMENTS IN AND LOANS TO CELL C LIMITED CONTINUED

Accounting implications of the Cell C recapitalisation transaction continued

Valuation of Cell C and impairment reversal continued

An increase/decrease in the following valuation inputs, when calculating the value-in-use of Cell C, would result in the following adjustments to TPC's share of the value-in-use:

	2% increase in discount rate R'000	1% decrease in terminal growth rate R'000	5% decrease in annual EBITDA R'000
Cell C Limited	**(78 912)**	**(21 359)**	**(190 390)**

The sensitivities were stress tested at year-end and no further adjustments were required.

Exposure to Cell C

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

	31 May 2023 R'000	31 May 2022 R'000
Concentration of credit risk:		
Loans receivable	**2 166 240**	—
Loss allowance on Cell C loans receivables	**(55 258)**	—
Trade receivables	**518 031**	2 612 065
Loss allowance on Cell C trade receivables	**(2 403)**	(26 717)
Other receivables	**214 548**	—
Loss allowance on Cell C other receivables	**(53 375)**	—
Payables due to Cell C:		
Trade payables	**(308 823)**	(851 473)

There is indirect exposure to Cell C as a result of the subscription sharing arrangement.

SUMMARY OF INVESTMENTS IN AND LOANS TO CELL C, OTHER ASSOCIATES AND OTHER JOINT VENTURES

The Group holds the following investments in and loans to associates and joint ventures:

	Cost and share of reserves		Loans		Investments and loans	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Cell C Limited	—	—	2 110 982	—	2 110 982	—
Other associates and joint ventures	83 185	76 147	44 065	48 603	127 250	124 750
	83 185	76 147	2 155 047	48 603	2 238 232	124 750
Disclosed as:						
– Non-current assets	83 185	76 147	1 913 645	22 745	1 996 830	98 892
– Current assets	—	—	241 402	25 858	241 402	25 858

Loans to associates and joint ventures

				Total loans		Current		Non-current	
	Effective shareholding	Payable	Interest rate	2023 R'000	2022 R'000	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Cell C Limited[1]	63,19%	*	*	2 110 982	—	221 670	—	1 889 312	—

[1] Refer to the investment in and loans to Cell C Limited note for details on the control assessment of Cell C Limited.

* Refer to the investment in and loans to Cell C Limited note for details of the interest rates linked to each loan and the payment terms.

Loans receivable from Cell C

	Debt Funding[1] R'000	Reinvestment Instrument[1] R'000	Deferral loan[2] R'000	Total R'000
Opening balance as at 1 June 2022	—	—	—	—
Loans advanced/fair value	914 396#	111 112	1 035 500	2 061 008
Fair value	914 396	111 112	1 100 000	2 125 508
Loss on modification of financial asset	—	—	(64 500)	(64 500)
Interest received	208 808	25 863	82 566	317 237
Payments received	—	—	(212 004)	(212 004)
Allowance (loss)/gain	(59 991)	(2 144)	6 876	(55 259)
Closing balance as at 31 May 2023	1 063 213	134 831	912 938	2 110 982
Initial fair value (R'000)	914 396#	111 112	1 035 500*	
Funds advanced (R'000)	1 032 632	111 112	1 100 000	
Credit adjusted effective interest rate (%)	31.25	31.80	12.67	
Carrying value at 31 May 2023 (R'000)	1 063 213	134 831	912 938	

This is after allocating R118 million of the gross amount advanced of R1.032 billion towards the net additional 9.53% shareholding in Cell C.

* This is after recognising a loss on modification of financial asset at initial recognition of R64.5 million.

INVESTMENTS IN AND LOANS TO ASSOCIATES AND JOINT VENTURES CONTINUED

[1] Debt funding and reinvestment instruments

Management assessed and concluded that the funding provided (Debt Funding and the Reinvestment Instrument) to Cell C as part of its recapitalisation should be classified as originated credit impaired loans. Cell C was restructured and refinanced with the purpose of deleveraging its balance sheet, providing it with liquidity with which to operate and grow its businesses and to position itself to achieve long-term success for the benefit of its customers, employees, creditors, shareholders and its other stakeholders. Cell C utilised the TPC Debt Funding to settle the claims of secured lenders by paying an amount of 20c to the rand. The face value of the funding provided by TPC is 2.75 times the cash it advanced. This deep discount evidences incurred losses.

Although Cell C's financial plan reflects that these loans will be repaid in full, the terms of the loans are 42 months for the Reinvestment Instrument and 66 months for the Debt Funding, and there is execution risk related to the achievement of the business plan.

Interest on these loans is being recognised using a credit adjusted effective interest rate. The credit adjusted effective interest rate reflects the initial estimate of lifetime expected credit losses. This means that TPC will only recognise the cumulative changes (both favourable and unfavourable) in the initial estimate of lifetime expected credit losses as a loss allowance.

The Debt Funding and Reinvestment Instrument receivables were initially recognised at the amount of the cash advanced plus transaction costs in accordance with the requirements of IFRS 9 for instruments which utilise unobservable inputs to determine their fair value. The fair value of the additional 9.53% shareholding in Cell C that was acquired for nominal consideration has been treated as part of TPC's return for providing the funding to Cell C and has been reflected in the calculation of the effective interest rate on the loans.

[2] Deferred repayment terms of an amount of R1.1 billion owing by Cell C to CEC

CEC accounted for the change in repayment terms as a significant modification, which resulted in the derecognition of the previous trade receivable and the recognition of a new long-term loan, initially at its fair value of R1.035 billion. This resulted in the recognition of a loss of R64.5 million in profit or loss. Management assessed and concluded that this loan should be classified as an originated credit impaired loan as a result of management renegotiating the terms of the amount owing in order to assist Cell C as part of its restructuring and recapitalisation. Cell C was restructured and refinanced with the purpose of deleveraging its balance sheet, providing it with liquidity with which to operate and grow its businesses and to position itself to achieve long-term success for the benefit of its customers, employees, creditors, shareholders and its other stakeholders. Interest on this loan is being recognised using a credit adjusted effective interest rate of 12.67%. The credit adjusted effective interest rate reflects the initial estimate of lifetime expected credit losses. This means that CEC will only recognise the cumulative changes (both favourable and unfavourable) in the initial estimate of lifetime expected credit losses as a loss allowance.

SUMMARY OF INVESTMENTS IN AND LOANS TO CELL C, OTHER ASSOCIATES AND OTHER JOINT VENTURES

CONTINUED

Investment in Principal activity Country of incorporation	Associate Cell C Limited Network provider South Africa		Other associates and joint ventures*		Total	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Cost and share of reserves at the beginning of the period	—	—	76 147	55 602	76 147	55 602
Acquisition of associates and joint ventures	—	—	6 373	17 682	6 373	17 682
Share of (losses)/profits from associates and joint ventures	(1 328 767)	—	(980)	8 042	(1 329 747)	8 042
Share of results after tax	(1 328 767)	—	(980)	9 137	(1 329 747)	9 137
Amortisation of intangible assets	—	—	—	(1 521)	—	(1 521)
Deferred tax on intangible assets amortisation	—	—	—	426	—	426
Foreign currency translation reserve	—	—	1 645	1 251	1 645	1 251
Dividends received	—		—	(5 885)	—	(5 885)
Diluted	—		—	(545)	—	(545)
Additional investment	366 236**		—	—	366 236	—
Reversal of impairment of investment in associate	962 531	—	—	—	962 531	—
Cost and share of reserves at the end of the period	—	—	83 185	76 147	83 185	76 147
Loans to associates and joint ventures		—			—	
Loans at the beginning of the period	—	—	48 603	22 763	48 603	22 763
Loans granted to associates and joint ventures	2 442 744		66 000	26 565	2 508 744	26 565
Loans repaid by associates and joint ventures	(212 004)	—	(63 552)	(1 805)	(275 556)	(1 805)
Loans waived	—	—	(4 000)	—	(4 000)	—
Expected credit loss	(55 258)	—	(2 986)	1 080	(58 244)	1 080
Loss on modification of financial instrument	(64 500)	—	—	—	(64 500)	—
Loans at the end of the period	2 110 982	—	44 065	48 603	2 155 047	48 603
Closing net book value	2 110 982	—	127 250	124 750	2 238 232	124 750
Share of (losses)/profits from associates and joint ventures	(1 328 767)	—	(980)	9 137	(1 329 747)	8 042

* 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 joint ventures".

INVESTMENTS IN AND LOANS TO ASSOCIATES AND JOINT VENTURES CONTINUED

Included in the statement of cash flows is the "Additional investment in and acquisition of shares in associates" amounting to R373 million which is made up above of "Acquisition of associates and joint ventures" of R6.4 million as well as "Additional investments" of R366 million.

	2023 R'000
Additional investment	**366 236****
Acquisition of additional notes in SPV1	**25 000**
Additional shareholding in Cell C of 9.53%	**118 236**
Loan to SPV4	**223 000**

Acquisition of additional notes in SPV1

The notes acquired in SPV1 fail the criteria to be classified as a financial asset at amortised cost because, by virtue of the fact that the only means SPV1 has to redeem the notes is its shareholding in Cell C, it represents an additional interest (without voting rights) in these shares subject to a limit of the debt plus accrued interest. Since Cell C is accounted for as an associate, TPC's additional interest in Cell C has also been accounted for as part of the investment in associate and equity accounted. Accordingly, the overall percentage interest in Cell C that is equity accounted reflects TPC's economic interest (and not only voting interest) which includes this additional interest of 3.19%.

The assessment of control is concerned with substantive rights as it relates to decisions about the direction of the relevant activities of the investee, and therefore, it is management's view that the additional interest without the additional right to vote, together with the operational barriers which prevent the Group from exercising its rights, will not change its assessment of whether Cell C is an associate, until such rights become substantive.

Additional shareholding in Cell C of 9.53%

The fair value at the date of recapitalisation of the 9.53% additional shares received of R118 million has been recognised as an increase in the equity accounted investment in Cell C and as part of TPC's return on the loans to Cell C which will be recognised over the period of the funding using the effective interest method.

Loan to SPV4

The loan to SPV4 does not meet the criteria to be classified as a financial asset at amortised cost because, by virtue of the fact that the only means SPV4 has to repay the loan is the 5.47% shareholding in Cell C, it represents an additional interest (without voting rights) in these shares subject to a limit of the debt plus accrued interest. Since Cell C is accounted for as an associate, this additional interest in Cell C has also been accounted for as part of the investment in associate and equity accounted. Accordingly, the overall percentage interest in Cell C that is equity accounted reflects TPC's economic interest (and not only voting interest) which includes this additional interest (without voting rights) of 5.47%.

The assessment of control is concerned with substantive rights as it relates to decisions about the direction of the relevant activities of the investee, and therefore, it is management's view that the additional interest without the additional right to vote, together with the operational barriers which prevent the Group from exercising its rights, will not change its assessment of whether Cell C is an associate, until such rights become substantive.

SUMMARY OF INVESTMENTS IN AND LOANS TO CELL C, OTHER ASSOCIATES AND OTHER JOINT VENTURES

CONTINUED

	Associate	
Investment in	**Cell C Limited**	
Principal activity	**Mobile network**	
Country of incorporation	**South Africa**	
Financial year-end*	**31 December**	
	31 May 2023 R'000	31 May 2022 R'000
Statement of financial position		
Non-current assets	**11 781 135**	12 833 049
Current assets	**3 234 213**	5 305 662
	15 015 348	18 138 711
Capital and reserves	**(4 047 141)**	(8 007 848)
Non-current liabilities	**6 698 254**	5 280 021
Current liabilities	**12 364 235**	20 866 538
	15 015 348	18 138 711
Effective percentage held (%)	**49.53**	45
Effective economic percentage held (%)[1]	**63.19**	45
Total capital and reserves	**(4 047 141)**	(8 007 848)
Cell C capital and reserves	**(11 354 946)[2]**	(15 307 778)
Carrying value of purchase price allocations net of deferred taxation	**7 307 805**	7 299 930
Accumulated impairment (refer to reconciliation below)	**(1 558 621)**	(2 521 152)
Accumulated losses not guaranteed (refer to reconciliation on page 34)	**(2 048 072)**	(4 806 908)

* 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.

[1] Refer to the "percentage of Cell C equity accounted" narrative on page 25.

[2] The opening capital and reserves of Cell C totalling a negative R15.3 billion necessitated a downward adjustment of R907 million, resulting in a correction to the company's opening net assets to a negative R16.2 billion. The downward adjustment is a result of the completion of historical audits for Cell C in the current year. The required adjustment of R907 million in Cell C's financials does not have an impact on BLT's Statement of Comprehensive Income or Statement of Financial Position for the current or comparative financial year. The impact on BLT is limited to BLT's share of the accumulated losses not guaranteed as disclosed below.

Accumulated impairment

	31 May 2023 R'000
Opening balance at 31 May 2022	**(2 521 152)**
Reversal of previous impairment	**962 531**
Closing balance	**(1 558 621)**

INVESTMENTS IN AND LOANS TO ASSOCIATES AND JOINT VENTURES CONTINUED

The Group's share of accumulated losses not guaranteed

	31 May 2023 R'000
Opening balance at 31 May 2022	**(4 806 908)**
Correction to opening capital and reserves[2]	**(408 268)**
Share of profit for the year ended 31 May 2023	**1 838 337**
Operational losses	**(1 271 601)**
Effect of recapitalisation	**3 109 938**
Recognition of historical losses previously not recognised	**1 328 767**
Reversal of previous impairment	**962 531**
Additional investment	**366 236**
Closing balance	**(2 048 072)**

Financial year*	1 June 2022 to 31 May 2023 R'000	1 June 2021 to 31 May 2022 R'000
Statement of comprehensive income for the year ended		
Revenue	**11 853 745**	13 302 733
Net profit/(loss) before taxation	**4 924 453**	(2 448 510)
Taxation	**(293 644)**	—
Net profit/(loss) after taxation	**4 630 809**	(2 448 510)
Other comprehensive (loss)/income	**—**	—
Share of total comprehensive income	**—**	—
Effective economic percentage held (%)	**63.19**	45
Share of profits/(losses)**	**1 838 337**	(1 101 830)

* 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.

** The Group will resume recognising its share of the profits only after its share of the profits equals the share of accumulated losses not recognised.

BORROWINGS

	2023 R'000	2022 R'000
Interest-bearing borrowings	**4 070 401**	2 567 752
Non-interest-bearing borrowings	**2 719**	719
	4 073 120	2 568 471
Amounts included in non-current portion of borrowings	**1 842 765**	474 471
Amounts included in current portion of borrowings	**2 230 355**	2 094 000
Categories of borrowings:		
Airtime sale and repurchase obligations	**988 245**	—
Class A Preference Shares	**171 453**	—
Facilities	**2 902 722**	2 564 926
Other third-party borrowings	**10 700**	3 545
Total borrowings	**4 073 120**	2 568 471

	Airtime sale and repurchase obligations			Preference Share A*
	From lenders R'000	From other third parties R'000	Total R'000	R'000
Opening balance as at 1 June 2022	—			—
Long-term borrowings raised	1 146 707	217 391	1 364 098	165 966
Interest expense	276 003	31 031	307 034	12 534
Gain on modification of financial liability	—	—	—	(7 047)
Repayments	(565 391)	(117 496)	(682 887)	—
Closing balance as at 31 May 2023	**857 319**	**130 926**	**988 245**	**171 453**
Amounts included in current portion of borrowings	598 879	130 926	729 805	—
Amounts included in non-current portion of borrowings	258 440	—	258 440	171 453
Funds borrowed (R'000)	1 238 707	217 391		165 966
Transaction costs (R'000)	92 000	—		—
Effective interest rate (%)	40.4	25.75		11

* The preference dividends are indexed to 15% of the 'upside' realised by TPC on the Debt Funding to Cell C (refer to "Loans to Cell C" in the investments in and loans to Cell C Limited note). The liability has been modified for the change in expectations of the future dividends payable based on the updated expectation of the future cash flows related to the Debt Funding.

TPC borrowings – from lenders and Preference Share A

The airtime sale and repurchase from lenders represents a financing transaction, with the airtime as security, together with the issue of the Class A, and Class B Preference Shares, which provide the lenders with additional compensation for their risk. As such the amount of borrowings was attributed to these three elements at their respective fair values.

The airtime sale and repurchase loan, and the Class A Preference Shares were recognised initially at their fair values less transaction costs and have been accounted for as financial liabilities at amortised cost. Given that the indexation of the cash flows under the Class B Preference Shares to a 5% shareholding in Cell C results in them containing an embedded derivative which would otherwise need to be stripped out and accounted for separately, the Class B Preference Shares have been designated to be financial liabilities at fair value through profit or loss. Refer to the financial instruments at fair value through profit or loss note for further details on the accounting treatment of the Class B Preference Shares.

TPC borrowings – from other third parties

The airtime sale and repurchase from third-party represents a financing transaction, with the airtime as security.

The airtime sale and repurchase loan was recognised initially at its fair value less transaction costs and has been accounted for as a financial liability at amortised cost.

BORROWINGS CONTINUED

Credit facilities

Facility	Facility utilised 2023 R'000	Facility utilised 2022 R'000
General banking facility – Investec	**70 722**	—
General banking facility – RMB	**32 000**	—
Revolving Facility A – Investec	**660 000**	941 584
Revolving Facility B – RMB	**240 000**	—
African Bank	**1 900 000**	1 623 342
Total borrowings	**2 902 722**	2 564 926

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

The fair value of the borrowings approximates their carrying amounts.

Changes in liabilities arising from financing activities

	Borrowings due within one year R'000	Borrowings due after one year R'000	Total R'000
Opening balance as at 1 June 2021	1 704 374	2 778	1 707 152
Non-interest-bearing borrowings raised	—	—	—
Non-interest-bearing borrowings repaid	(270)	—	(270)
Interest-bearing borrowings raised through the acquisition of non-controlling interest	104 950	—	104 950
Interest-bearing borrowings raised	1 155 448	471 693	1 627 141
Interest accrued on interest-bearing borrowings*	183 280	—	183 280
Interest-bearing borrowings capital repaid	(870 502)	—	(870 502)
Interest-bearing borrowings interest repaid	(183 280)	—	(183 280)
Closing balance as at 31 May 2022	2 094 000	474 471	2 568 471
Acquisition of subsidiaries interest-bearing borrowings	**12 672**	**—**	**12 672**
Acquisition of subsidiaries non-interest-bearing borrowings	**2 000**	**—**	**2 000**
Movement between current and non-current	**(156 964)**	**156 964**	**—**
Loan forgiveness	**—**	**(2 778)**	**(2 778)**
Loan modification	**—**	**(7 047)**	**(7 047)**
Interest-bearing borrowings raised	**701 479**	**1 207 966**	**1 909 445**
Interest accrued on interest-bearing borrowings*	**630 221**	**13 189**	**643 410**
Interest-bearing borrowings capital repaid	**(422 832)**	**—**	**(422 832)**
Interest-bearing borrowings interest repaid	**(630 221)**	**—**	**(630 221)**
Closing balance as at 31 May 2023	**2 230 355**	**1 842 765**	**4 073 120**

* Of the total interest accrued on interest-bearing borrowings, Rnil (2022: R17 million) is accounted for as finance costs incurred in the generation of revenue on the Group income statement. The balance is accounted for in finance costs on the Group income statement.

Maturity of financial liabilities

The table below analyses the undiscounted cash flows for the Group's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date.

	Less than one month or on demand R'000	More than one month but not exceeding one year R'000	Payable in 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
2023					
Airtime repurchase obligations – lenders	**70 192**	**772 109**	**280 544**	**—**	**—**
Airtime repurchase obligations – other third parties	**14 687**	**132 183**	**—**	**—**	**—**
Class A Preference Shares	**—**	**—**	**—**	**292 621**	**—**
Other interest-bearing borrowings	**28 323**	**1 681 578**	**513 448**	**842 722**	**—**
Non-interest-bearing borrowings	**2 719**	**—**	**—**	**—**	**—**
Total	**115 921**	**2 585 870**	**793 992**	**1 135 343**	**—**
2022					
Interest-bearing borrowings	14 130	2 198 187	495 308	—	—
Non-interest-bearing borrowings	719	—	—	—	—
Total	14 849	2 198 187	495 308	—	—

FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Changes in the instruments are as follows:

	Surety loan receivable R'000	Loans receivable carried at fair value R'000	SPV5 derivative liability R'000	Class B Preference Shares R'000	Derivative liability R'000	Other R'000	Total R'000
Balance as at 1 June 2021	83 713	126 604			(68 178)	8 258	150 397
Additions	—	49 524	—	—	—	(200)	49 324
Repayments	—	(3 003)	—	—	—	(8 822)	(11 825)
Derecognition on termination recognised in profit or loss	—	—	—	—	68 178	—	68 178
Recognition of new instrument recognised in profit or loss	—	—	—	—	(22 000)	—	(22 000)
Fair value gain recognised in profit or loss	12 859	4 208	—	—	—	564	17 631
Other movements	—	(126 604)	—	—	—	—	(126 604)
Balance as at 31 May 2022	**96 572**	**50 729**	**—**	**—**	**(22 000)**	**(200)**	**125 101**
Additions	**—**	**—**	**—**	**(66 859)**	**—**	**—**	**(66 859)**
Repayments	**—**	**(13 540)**	**—**	**—**	**—**	**—**	**(13 540)**
Derecognition on termination recognised in profit or loss	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Recognition of new instrument recognised in profit or loss	**—**	**—**	**(13 214)**	**—**	**—**	**—**	**(13 214)**
Fair value gain recognised in profit or loss	**32 743**	**9 412**	**2 164**	**16 085**	**22 000**	**86**	**82 490**
Other movements	**—**	**(1 737)**	**—**	**—**	**—**	**114**	**(1 623)**
Balance as at 31 May 2023	**129 315**	**44 864**	**(11 050)**	**(50 774)**	**—**	**—**	**112 355**
Financial assets at fair value through profit or loss – included in current assets	**16 164**	**44 864**	**—**	**—**	**—**	**—**	**61 028**
Financial assets at fair value through profit or loss – included in non-current assets	**113 151**		**—**	**—**	**—**	**—**	**113 151**
Financial liabilities at fair value through profit or loss – included in non-current liabilities	**—**	**—**	**(11 050)**	**(50 774)**	**—**		**(61 824)**
	129 315	**44 864**	**(11 050)**	**(50 774)**	**—**	**—**	**112 355**
Unrealised gains/(losses)	**32 743**	**9 412**	**(11 050)**	**16 085**	**—**	**—**	**47 190**

Surety loans receivable

Surety loans relate to the personal sureties that B Levy and M Levy signed for the US Dollar denominated 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). In November 2021 the payment terms for the surety loans were renegotiated, with the payments being agreed as instalments payable annually commencing on 30 September 2023 and ending on 30 September 2030.

Loans at fair value

As part of the fraud recoupment, the Group received the right to a loan, amounting to R73 million, advanced to a third party. The loan bears interest at prime overdraft rate and is repayable by 30 June 2026. Interest was payable up to 30 June 2022 and thereafter interest and capital are payable. In addition to the interest payments required, the borrower had the right to pay R10 million capital by 1 July 2022 in return for a R4.2 million discount in the capital amount of the loan. It is the Group's view that this right results in the contractual cash flows failing to meet the requirements for amortised cost accounting, causing the loan to be measured at fair value through profit or loss. This right was not exercised. The fair value of the loan reflected a market-related interest rate of prime plus 5% and credit risk-adjusted expected cash flows. Prior to year-end, a settlement agreement was signed, stipulating the final payment due and payable. These terms were incorporated into the year-end valuation of the loan receivable.

SPV5 derivative liability

A debt owing to a lessor by Cell C was transferred into a new special purpose vehicle (SPV5) in exchange for a 10% shareholding in Cell C (being the only asset of the SPV).

When the funds are advanced by TPC to SPV5 they will be treated as an additional 10% investment (without voting rights) in Cell C because the shares in Cell C are the only means that the SPV has with which to repay TPC's loan. As a result, TPC's loan commitment is an in-substance written put option over the economic interest of SPV5's shareholding in Cell C, which meets the definition of a derivative. Accordingly, TPC has accounted for its loan commitment to SPV5 as a derivative at fair value through profit or loss. The derivative is initially recognised by the Group at fair value and subsequently measured at fair value through profit or loss.

	SPV5 Derivative liability R'000
Funds borrowed (R'000)	**—**
Transaction costs (R'000)	**—**
Effective interest rate (%)	**N/A**
Value at 31 May 2023 (R'000)	**11 050**

Class B Preference Shares

TPC issued Class B Preference Shares to the funders for a nominal issue price.

Given that the indexation of the cash flows under the Class B Preference Shares to a 5% shareholding in Cell C results in them containing an embedded derivative which would otherwise need to be stripped out and accounted for separately, the Class B Preference Shares have been designated to be financial liabilities at fair value through profit or loss. The preference shares are initially recognised by the Group at fair value and subsequently measured at fair value through profit or loss.

	Class B Preference Shares R'000
Funds borrowed (R'000)	**66 859**
Transaction costs (R'000)	**—**
Effective interest rate (%)	**N/A**
Value at 31 May 2023 (R'000)	**50 774**

Derivative liability

On 15 December 2021, BLT concluded a put option agreement with Digital Ecosystems Proprietary Limited (DE), formerly Blue Label Mobile Proprietary Limited, in terms of which DE acquired the right to put up to 40% of the shares in Airvantage to BLT no earlier than 15 December 2022 for a maximum amount of R110 million. If Cell C Limited, through a Board resolution, passes a solvency and liquidity test prior to 15 December 2022, the put option will be terminated.

On 26 August 2022, in anticipation of the Cell C recapitalisation, the put obligation was terminated by DE.

RELATED PARTIES

Significant related-party transactions and balances:

	Sales to related parties		Purchases from related parties	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Blue Train Proprietary Limited*	**1 845**	—	**67 344**	13 631
Cell C Limited and its related entities*	**5 354 565**	3 975 162	**7 035 401**	6 624 066
I Talk Financial Services Proprietary Limited*	**4 690**	5 924	**5 419**	2 452
I Talk Holdings Proprietary Limited*	**31 483**	28 192	**42 588**	42 542
T3 Telecoms SA Proprietary Limited*	**2 232 922**	3 619 973	**29 897**	20 561
Utilities World Proprietary Limited*	**8 532**	3 803	**8 054**	1 017

	Income received from related parties		Expenses paid to related parties	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Other income received from related parties				
I Talk Holdings Proprietary Limited*	**5 566**	—	**—**	—
I Talk Holdings Proprietary Limited*	**15 628**	—	**—**	—
T3 Telecoms SA Proprietary Limited*	**7 884**	—	**—**	—
Dividends received from related parties				
Utilities World Proprietary Limited*	**61**	5 885	**—**	—
Interest received from related parties				
Cell C Limited and its related entities*	**317 235**	—	**—**	—
Finance revenue from related parties				
Cell C Limited and its related entities*	**36 244**	96 788	**—**	—
Rent paid to related parties[1]				
Ellerine Bros. Proprietary Limited	**—**	—	**10 612**	9 826
Moneyline 311 Proprietary Limited[2]	**—**	—	**4 070**	9 826
Uvongo Falls No 26 Proprietary Limited[2]	**—**	—	**4 780**	10 228
Social economic development				
Trust Blu Foundation	**282**	280	**14 590**	18 973

	Loans to related parties		Loans from related parties	
	2023 R'000	2022 R'000	2023 R'000	2022 R'000
Cell C Limited and its related entities*	**2 166 240**	—	**—**	—
Blue Train Proprietary Limited*	**5 149**	4 116	**—**	—
Brett Levy[3]	**64 658**	48 286	**—**	—
Mark Levy[3]	**64 658**	48 286	**—**	—
I Talk Financial Services Proprietary Limited*	**4 000**	8 000	**—**	—
I Talk Holdings Proprietary Limited*	**19 900**	18 900	**—**	—
Mobile Macs Proprietary Limited*	**5 100**	—	**—**	—
T3 Telecoms SA Proprietary Limited*	**6 854**	14 682	**—**	—
Total loss allowance on loans to related parties	**(59 417)**	(1 173)	**—**	—

* These entities are associates/joint ventures.

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

[2] Independent Non-Executive Director, GD Harlow, resigned on 19 October 2022. Related-party disclosure as a result of his common directorships has been disclosed accordingly and in line with his resignation date.

[3] Refer to the financial instruments at fair value through profit or loss note for details on the surety loans.

Certain related-party disclosure is required as a result of common directorships.

	Lease asset due from related parties		Lease liability due to related parties[2]	
	2023 R'000	2022 R'000	**2023 R'000**	2022 R'000
Ellerine Bros. Proprietary Limited	**—**	—	**—**	10 059
Moneyline 311 Proprietary Limited	**—**	—	**—**	10 059
Uvongo Falls No 26 Proprietary Limited	**—**	—	**—**	10 257

	Amounts due from related parties included in trade receivables		Amounts due to related parties included in trade payables	
	2023 R'000	2022 R'000	**2023 R'000**	2022 R'000
Cell C Limited and its related entities*	**518 031**	2 612 065	**308 823**	851 473
I Talk Holdings Proprietary Limited*	**10 040**	10 031	**6 149**	3 123
Oxigen Services India Private Limited*#	**5 876**	5 876	**—**	—
T3 Telecoms SA Proprietary Limited*	**11 097**	9 687	**96**	—
Total loss allowance on trade receivables to related parties	**(8 422)**	(32 575)	**—**	—

	Amounts due from related parties included in other receivables		Amounts due to related parties included in other payables	
	2023 R'000	2022 R'000	**2023 R'000**	2022 R'000
Cell C Limited and its related entities*	**161 173**	—	**—**	—
TPC trade claim (included in sundry receivables)#	**53 375**	—	**—**	—
Utilities World Proprietary Limited*	**13 750**	21 335	**—**	—
Total loss allowance on other receivables to related parties	**(53 375)**	—	**—**	—

* These entities are associates/joint ventures.

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

1 Included in the rental payments is the unwinding of the lease liability.

2 Independent Non-Executive Director, GD Harlow, resigned on 19 October 2022. Related-party disclosure as a result of his common directorships has been disclosed accordingly and in line with his resignation date.

Certain related-party disclosure is required as a result of common directorships.

BASIS OF PREPARATION

The summarised Group financial statements are prepared in accordance with the requirements of the JSE Listings Requirements for provisional reports, and the requirements of the Companies Act applicable to the summarised Group financial statements. The JSE Listings Requirements require provisional reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 – *Interim Financial Reporting*. The accounting policies applied in the preparation of the audited summarised Group financial statements are in terms of IFRS and are consistent with those applied in the previous audited Group annual financial statements as at 31 May 2022.

NON-IFRS INFORMATION

The non-IFRS performance measures are compiled in terms of the JSE Listings Requirements and the Guide on Pro Forma Financial Information, issued by SAICA and are the responsibility of the board of directors and are presented for illustrative purposes. Pro forma information presented on a non-IFRS basis has been extracted from the information underlying the Group's summarised consolidated financial statements, the quality of which the board is satisfied with.

Shareholders are advised that, due to the pro forma nature of the non-IFRS performance measures, they may not fairly present the Group's financial position, changes in equity, results of operations or cash flows.

The non-IFRS performance measures have been prepared to illustrate the impact of changes in the recapitalisation transaction and core headline earnings.

REASONABLE ASSURANCE REPORT

TO THE DIRECTORS OF BLUE LABEL TELECOMS LIMITED

Report on the Assurance Engagement on the Compilation of Pro Forma Financial Information included in the summary consolidated financial statements

We have completed our assurance engagement to report on the compilation of the pro forma financial information of Blue Label Telecoms Limited and its subsidiaries, associates and joint venture (the "Group") by the directors. The pro forma financial information, as set out in the Financial Highlights announcement and Commentary, consists of certain income, costs and trading profit metrics, excluding the effects of specified commercial transactions in the composition of the Group and excluding the impact of what management term "extraneous contributions" which includes "extraneous costs" and/or "extraneous income" and core headline earnings (non-IFRS performance measure or the "pro-forma financial information") as at 31 May 2023. The applicable criteria on the basis of which the directors have compiled the pro forma financial information are specified in the JSE Limited (JSE) Listings Requirements and described on page 42 of the summarised financial statements.

The pro forma financial information has been compiled by the directors to illustrate the impact of specified transactions, including the recapitalisation of Cell C undertaken and extraneous contributions from the Group's operational performance, earnings and headline earnings. As part of this process, information about the Group's financial position and financial performance has been extracted by the directors from the Group's financial statements for the year ended 31 May 2023, on which an audit report has been published.

Directors' responsibility

The directors of the Group are responsible for compiling the pro forma financial information on the basis of the applicable criteria specified in the JSE Listings Requirements and described in the Commentary of the summary consolidated financial statements for the year ended 31 May 2023 .

Our Independence and Quality Management

We have complied with the independence and other ethical requirements of the Code of Professional Conduct for Registered Auditors, issued by the Independent Regulatory Board for Auditors' (IRBA Code), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards).

The firm applies International Standard on Quality Management 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements, which requires the firm to design, implement and operate a system of quality management, including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting accountant's responsibility

Our responsibility is to express an opinion about whether the pro forma financial information has been compiled, in all material respects, by the directors on the basis of the applicable criteria specified in the JSE Listings Requirements.

We conducted our engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3420, Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus issued by the International Auditing and Assurance Standards Board. This standard requires that we plan and perform our procedures to obtain reasonable assurance about whether the pro forma financial information has been compiled, in all material respects, on the basis specified in the JSE Listings Requirements.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction would have been as presented.

REASONABLE ASSURANCE REPORT CONTINUED

A reasonable assurance engagement to report on whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on our judgement, having regard to our understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

Our engagement also involves evaluating the overall presentation of the pro forma financial information.

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

Opinion

In our opinion, the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria specified by the JSE Listings Requirements.

Alex Philippou
SizweNtsalubaGobodo Grant Thornton Inc.
Engagement Director
Registered Auditor

29 August 2023

221 Garstfontein Road
Newlands
Pretoria
Gauteng

GLOSSARY

Act/the Act/ Companies Act	Companies Act, No 71 of 2008, as amended from time to time
AGM	Annual General Meeting
Airvantage	Airvantage, a private company whose Prepaid Airtime Advance System (PAS) offers Mobile Network Operators airtime, data and mobile money services: the ability to advance airtime, data or mobile money to subscribers
ARCC	Audit, Risk and Compliance Committee
BLT	Blue Label Telecoms Limited
Blue Label/Blue Label Telecoms	Blue Label Telecoms Limited
Company	Blue Label Telecoms Limited
CEC	Comm Equipment Company
Cell C	Cell C Proprietary Limited, launched operations in 2001, seven years after the launch of the two incumbents, Vodacom and MTN (launched in 1994)
CEO	Chief Executive Officer
Group	Blue Label Telecoms Limited and its subsidiaries, associates and joint ventures
HEPS	Headline earnings per share
JSE	Johannesburg Stock Exchange Limited
SIM card	Subscriber identification module card
SMS	Short message service
SNGGT	SizweNtsalubaGobodo Grant Thornton Inc.
TPC	The Prepaid Company Proprietary Limited
USD	US dollar
WACC	Weighted Average Cost of Capital

ADMINISTRATION

DIRECTORS

LM Nestadt (Chairman)*, BM Levy, MS Levy, H Masondo*, NP Mnxasana*, JS Mthimunye*, LE Mthimunye*, DA Suntup, SJ Vilakazi*

(* Independent Non-Executive)

COMPANY SECRETARY

J van Eden

SPONSOR

Investec Bank Limited

AUDITORS

SizweNtsalubaGobodo Grant Thornton Inc.

BLUE LABEL TELECOMS LIMITED

(Incorporated in the Republic of South Africa)
(Registration number 2006/022679/06)

Registered address:	75 Grayston Drive, corner Benmore Road, Morningside Ext 5, Sandton, 2196
Postal address:	PO Box 652261, Benmore, 2010
Contacts:	+27 11 523 3000/info@blts.co.za/www.bluelabeltelecoms.co.za
LinkedIn:	Blue Label Telecoms
Facebook:	www.facebook.com/BlueLabelTelecoms
Twitter:	@BlueLabelTeleco
Instagram:	bluelabeltelecoms
YouTube:	Blue Label Telecoms

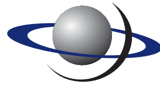
JSE SHARE CODE

BLU

ISIN

ZAE000109088
(Blue Label or BLT or the Company or the Group)

Bastion



BLUE LABEL
TELECOMS

75 Grayston Drive
(Corner of Grayston Drive & Benmore Drive)
Morningside Extension 05, Sandton,
Johannesburg, South Africa

www.bluelabeltelecoms.co.za