

Notes to the group financial statements continued

for the year ended 31 December 2017

6 FINANCING STRUCTURE AND COMMITMENTS (continued)

6.7 Commercial commitments

Incentives for handset upgrades

The group's present policy is to pay incentives to service providers (SPs) for handset upgrades. These upgrades are only payable once the subscribers have completed a 21-month period with the SP since the initial commencement of their contract or previous upgrade and the eligible subscribers have exercised their rights to receive upgrades for new postpaid contracts with minimum terms. The value of the obligation may vary depending on the prevailing business rules at the time of the upgrade. The total number of eligible subscribers who had not yet exercised their right to upgrade at 31 December 2017 was 853 562 (2016: 572 235) and the estimated commitment in respect of these incentives amounts to R583 million (2016: R677 million).

6.8 Contingent liabilities

The group does not recognise contingent liabilities in the statement of financial position until future events indicate that it is probable that an outflow of resources will take place and a reliable estimate can be made, at which time a provision is recognised.

	2017 Rm	2016 Rm
Contingent liabilities	9 847	8 127
Uncertain tax exposure	8 667	7 611
Legal and regulatory matters	1 180	516

Uncertain tax exposures

The group operates in numerous tax jurisdictions and the group's interpretation and application of the various tax rules applied in direct and indirect tax filings may result in disputes between the group and the relevant tax authority. The outcome of such disputes may not be favourable to the group. At year-end, there were a number of tax disputes ongoing in various of the group's operating entities, the most significant of which relates to a transfer pricing dispute which the group is contesting.

The group has applied its judgement and has recognised liabilities based on whether additional amounts will be payable and has included contingent liabilities where economic outflows are considered possible but not probable.

Legal and regulatory matters

The group is involved in various legal and regulatory matters, the outcome of which may not be favourable to the group and none of which are considered individually material. The group has applied its judgement and has recognised liabilities based on whether additional amounts will be payable and has included contingent liabilities where economic outflows are considered possible but not probable.