

Notes to the financial statements

for the year ended 31 March 2020

1. Corporate information

Telkom SA SOC Limited (Telkom), the ultimate parent of the Group, is a Company incorporated and domiciled in the Republic of South Africa (South Africa) whose shares are publicly traded on the Johannesburg Stock Exchange (JSE). The main objective of Telkom and its subsidiaries (the Group) and associates is to supply telecommunication, multimedia, technology, information, mobile communication services and other related information technology services to the Group's customers in Africa. Refer to note 2.6.9.1 for a description of the products and services offered by the Group.

2. Significant accounting policies, judgements, estimates and assumptions

2.1 Basis of preparation

These financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) and in compliance with the SAICA Financial Reporting Guide as issued by the Accounting Practices Committee, the Financial Pronouncements as issued by the Financial Reporting Standards Council, the JSE Listing Requirements and the requirements of the Companies Act of South Africa 2008.

The financial statements are disclosed in South African Rand, which is also the parent Company's presentation and functional currency. Unless stated otherwise, all financial information presented in Rand has been rounded off to the nearest million.

The financial statements are prepared on the historical cost basis, with the exception of certain financial instruments subsequently measured at fair value. Details of the Group's significant accounting policies are set out below and are consistent with those applied in the previous financial year except for the adopted standards and amendments as listed below.

2.2 Adoption of new accounting standards

2.2.1 Adoption of IFRS 16 Leases

The Group adopted IFRS 16 Leases with effect from 1 April 2019. IFRS 16 replaces IAS 17 Leases, along with the following three Interpretations: IFRIC 4 Determining whether an Arrangement Contains a Lease, SIC 15 Operating Leases - Incentives and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The Group has adopted the new standard retrospectively, but has not restated comparatives, as permitted under the specific transitional provisions in the standard. Therefore, prior periods are still reported under IAS 17 along with the three Interpretations. The reclassifications and adjustments arising from the adoption of IFRS 16 are recognised in the opening statement of financial position as at 1 April 2019.

2.2.1.1 Transition

2.2.1.1.1 The Group as a lessee

On the adoption date, for leases classified as operating leases in terms of IAS 17, the Group measured the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate, for the remaining lease terms, as at 1 April 2019.

Right-of-use assets were measured at an amount equal to the lease liability, adjusted for any prepaid or accrued lease payments that existed immediately before the date of adoption.

The following practical expedients were applied on adoption of IFRS 16:

Short-term leases	The Group elected to apply the practical expedient to account for leases with a remaining lease term of less than 12 months as at 1 April 2019 in lease expenses. The exemption is applied per class of underlying asset.
Initial direct costs	The Group elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence on adoption of the standard.
Lease term	Telkom benefited from the use of hindsight for determining the lease term when considering options to extend or terminate leases.
Impairment review on right-of-use assets	Instead of performing an impairment review on the right-of-use assets on the adoption date, Telkom has relied on its historical assessment as to whether leases were onerous immediately before the adoption of IFRS 16. There were no onerous provisions as at 1 April 2019.
Discount rate	The Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying assets in a similar economic environment and same entity within the Group).

The Group has also elected not to reassess whether a contract is, or contains a lease, on adoption of the standard. Instead, for contracts entered into before the adoption date, the Group relied on its assessment made, applying IAS 17 along with the three Interpretations. The Group has elected to apply the recognition exemption relating to low-value assets.

For finance leases, the carrying amount of the right-of-use asset and the lease liability at 1 April 2019 was determined as the carrying amount of the lease asset and lease liability under IAS 17, immediately before that date.

On transition to IFRS 16, the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 8.805% for Group and Company.

2.2.1.1.2 The Group as a lessor

The Group's accounting policy under IFRS 16 has not changed from the comparative period. As a lessor, the Group classifies its leases as either operating or finance leases.

The Group has elected not to reassess whether a contract is, or contains a lease, on adoption of the standard. Instead, for contracts entered into before the adoption date, the Group relied on its assessment made, applying IAS 17 along with the three Interpretations.

2.2.1.2 Impact on the financial statements

The adoption of IFRS 16 Leases on 1 April 2019 affected the following line items on the statement of profit or loss and other comprehensive income, the statement of financial position and the statement of cash flows: