

15. Financial instruments and risk management

15.1 Financial risk management objectives and policies

The Group's principal financial liabilities, other than derivatives, comprise interest-bearing debt, lease liabilities and trade and other payables. The Group's financial liabilities are subjected to fair value measurements and adjustments.

The Group has finance lease receivables, trade and other receivables, contract assets, cash receivables and short-term deposits that arise directly from its operations. The main purpose of the interest-bearing debt is to raise finance for the Group's operations.

The Group is exposed to liquidity, credit and market risk. The Group's senior management oversees the management of these risks.

Risk management

Treasury policies, risk limits and control procedures are continuously monitored by the Board of directors through its Audit Committee and Risk Committee.

The Group holds or issues financial instruments to finance its operations, for the investment of short-term funds and to manage currency and interest rate risks. In addition, financial instruments such as trade receivables and payables arise directly from the Company's operations.

The Group finances its operations primarily by a mixture of issued share capital, retained earnings, long-term and short-term loans. The Group uses derivative financial instruments to manage its exposure to market risks from changes in interest and foreign exchange rates. The derivatives used for this purpose are principally interest rate swaps and forward exchange contracts and the Group does not speculate in derivative instruments. The Group applied fair value hedge accounting in the current and prior financial year.

		Group	
		At fair value through profit or loss Rm	At amortised cost Rm
The table below sets out the Group's classification of financial assets and liabilities.		Notes	
2020			
Classes of financial instruments per statement of financial position			
Assets		745	14 039
Other investments*	16.2	212	–
Trade and other receivables**	20	–	6 661
Contract asset	20	–	1 979
Other financial assets	22	533	418
Forward exchange contracts		533	–
Asset finance receivables		–	418
Finance lease receivables	17	–	253
Cash and cash equivalents	23	–	4 728
Liabilities		(673)	(20 685)
Interest-bearing debt	27	–	(12 005)
Trade and other payables	31	–	(8 339)
Shareholders for dividend	36	–	(31)
Other financial liabilities	22	(673)	–
Firm commitments		(530)	–
Interest rate swaps		(143)	–
Asset finance payables	22	–	(119)
Financial guarantees		–	(13)
Vendor financing	22	–	(176)
Credit facilities utilised	23	–	(2)

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15. Financial instruments and risk management continued

15.1 Financial risk management objectives and policies continued

	Notes	At fair value through profit or loss Rm	At amortised cost Rm
2019			
Classes of financial instruments per statement of financial position			
Assets		1 873	10 935
Other investments***	16.2	1 642	-
Trade and other receivables**	20	-	6 738
Contract assets***	20	-	2 161
Other financial assets	22	231	290
Forward exchange contracts		161	-
Firm commitments		70	-
Asset finance receivables		-	290
Finance lease receivables	17	-	318
Cash and cash equivalents	23	-	1 428
Liabilities		(281)	(16 921)
Interest-bearing debt	27	-	(10 241)
Trade and other payables***	31	-	(6 536)
Shareholders for dividend	36	-	(29)
Other financial liabilities	22	(281)	-
Forward exchange contracts		(13)	-
Firm commitments		(237)	-
Interest rate swaps		(31)	-
Vendor financing***	22	-	(107)
Asset finance payables	22	-	(115)

	Notes	Company	
		At fair value through profit or loss Rm	At amortised cost Rm
2020			
Classes of financial instruments per statement of financial position			
Assets		668	11 408
Other investments	16.2	161	-
Trade and other receivables**	20	-	6 072
Contract assets	20	-	1 850
Other financial assets	22	507	-
Forward exchange contracts		507	-
Finance lease receivables	17	-	253
Cash and cash equivalents	23	-	3 233
Liabilities		(673)	(25 505)
Interest-bearing debt	27	-	(12 005)
Trade and other payables	31	-	(10 716)
Shareholders for dividend	36	-	(31)
Other financial liabilities	22	(673)	(2 753)
Firm commitments		(530)	-
Interest rate swaps		(143)	-
BCX Treasury fund		-	(2 753)

	Notes	At fair value through profit or loss Rm	At amortised cost Rm
2019			
Classes of financial instruments per statement of financial position			
Assets		1 803	14 732
Other investments***	16.2	1 574	–
Trade and other receivables**	20	–	7 946
Contract assets***	20	–	2 161
Other financial assets	22	229	–
Forward exchange contracts		159	–
Firm commitments		70	–
Loans and preference share investments in subsidiaries	16.1	–	3 732
Finance lease receivables	17	–	318
Cash and cash equivalents	23	–	575
Liabilities		(280)	(23 921)
Interest-bearing debt	27	–	(10 194)
Trade and other payables***	31	–	(10 941)
Shareholders for dividend	36	–	(29)
Other financial liabilities	22	(280)	(2 757)
Forward exchange contracts		(13)	–
Firm commitments		(237)	–
Interest rate swaps		(30)	–
BCX treasury fund		–	(2 757)

* Other investments are disclosed net of investments accounted for using the equity method of R11 million (31 March 2019: R9 million).

** Trade and other receivables are disclosed excluding prepayments of R125 million (31 March 2019: R481 million) for the Company and R358 million (31 March 2019: R687 million for the Group).

*** Restated. Refer to note 2.4.

15.2 Fair value of financial instruments

15.2.1 Valuation techniques and assumptions applied for the purposes of measuring fair value

Fair value of all financial instruments noted in the statement of financial position approximates carrying value except as disclosed below.

The fair value of financial instruments is included at the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk. The fair value of cash and short-term deposits, trade and other receivables, contract assets, finance leases, shareholders for dividend and trade and other payables approximate their carrying amounts largely due to the short-term maturities of these instruments and market related interest rates included in finance lease receivables. Long-term receivables and borrowings are evaluated by the Group based on parameters such as interest rates, specific country factors and the individual creditworthiness of the customer. Based on this evaluation, allowances are taken into account for the expected losses of these receivables. As at the reporting date, the carrying amount of such receivables, net of allowances, are not materially different from their calculated fair values. Fair values of quoted bonds are based on price quotations at the reporting date. Refer to note 15.2 for the fair values of financial instruments measured at fair value and financial instruments where the fair value materially differs from the carrying amount.

The carrying amount of financial instruments approximates fair value, with the exception of interest-bearing debt (at amortised cost) for Telkom Company which has a fair value of R12 097 million (31 March 2019: R10 327 million) and a carrying amount of R12 005 million (31 March 2019: R10 194 million).

The fair value of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations.

For financial assets and liabilities not traded in an active market, a valuation technique is applied to derive the fair value, which takes into account quoted prices for similar or identical liabilities in active markets using observable inputs where necessary.

The impact of COVID-19 has resulted in the volatility of prices on various markets which has a direct or an indirect impact on the fair values at the reporting date.

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15. Financial instruments and risk management continued

15.2 Fair value of financial instruments continued

Type of financial instrument - Group	Fair value at 31 March 2020 Rm	Valuation technique	Significant inputs
Derivative assets	533	Discounted cash flows	Yield curves
Derivative liabilities	(673)		Market interest rates
Investment in Absa sinking fund	161	Quoted market prices adjusted for counterparty credit risk	Market prices
Investment in FutureMakers entities	51	Discounted cash flows	Cash flow forecasts and market related discount rates
Interest-bearing debt	(12 097)	Discounted cash flows and quoted bond prices	Market interest rates

15.2.2 Fair value hierarchy

The following table presents the Group's assets and liabilities that are measured at fair value at reporting date. The different levels have been defined as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices, that are observable for the asset or liability.

Level 3: Inputs for the asset or liability that are not based on observable market data.

There were no transfers between levels in the current financial year.

		Group			
	Notes	Total Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm
2020					
Assets measured at fair value					
Forward exchange contracts	22	533	–	533	–
Investment made by FutureMakers	16.2	51	–	–	51
Investment in Absa sinking fund	16.2	161	–	161	–
Liabilities measured at fair value					
Firm commitments	22	(530)	–	(530)	–
Interest rate swaps	22	(143)	–	(143)	–
Liabilities measured at amortised cost					
Interest-bearing debt	27	(12 097)	–	(12 097)	–
2019					
Assets measured at fair value					
Forward exchange contracts	22	161	–	161	–
Firm commitments	22	70	–	70	–
Investment made by FutureMakers	16.2	69	–	–	69
Investment in Absa sinking fund	16.2	1 573	–	1 573	–
Liabilities measured at fair value					
Forward exchange contracts	22	(13)	–	(13)	–
Firm commitments	22	(237)	–	(237)	–
Interest rate swaps	22	(30)	–	(30)	–
Liabilities measured at amortised cost					
Interest-bearing debt	27	(10 327)	–	(10 327)	–

	Notes	Company			
		Total Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm
2020					
Assets measured at fair value					
Forward exchange contracts	22	507	–	507	–
Investment in Absa sinking fund	16.2	161	–	161	–
Liabilities measured at fair value					
Firm commitments	22	(530)	–	(530)	–
Interest rate swaps	22	(143)	–	(143)	–
Liabilities measured at amortised cost					
Interest-bearing debt	27	(12 097)	–	(12 097)	–
2019					
Assets measured at fair value					
Forward exchange contracts	22	159	–	159	–
Firm commitments	22	70	–	70	–
Investment in Absa sinking fund	16.2	1 573	–	1 573	–
Liabilities measured at fair value					
Forward exchange contracts	22	(13)	–	(13)	–
Firm commitments	22	(237)	–	(237)	–
Interest rate swaps	22	(30)	–	(30)	–
Liabilities measured at amortised cost					
Interest-bearing debt	27	(10 327)	–	(10 327)	–

15.3 Credit risk

15.3.1 Credit risk management

Credit risk, or the risk of financial loss, is the risk that a counterparty will not meet its contractual obligations as they fall due per the stipulated contractual terms. The Group is exposed to credit risk from its operating activities and from investing activities, including deposits with banks and financial institutions. Telkom Company is not exposed to significant concentrations of credit risk as credit limits are set on an individual basis and reviewed annually.

The Group's maximum exposure to credit risk is represented by the gross carrying amount of the financial assets that are exposed to credit risk.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each type of customer. Management reduces the risk of irrecoverable debt by improving credit management through credit checks and limits. To reduce the risk of counterparty failure, limits are set based on the individual ratings of counterparties by well-known rating agencies. Trade receivables comprise a large widespread customer base, covering residential, business, government, wholesale, global and corporate customer profiles.

Credit checks are performed on all customers, other than pre-paid customers, on application for new services on an ongoing basis, where appropriate.

There was a material change in the Group's exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the 2020 financial year, due to the impact of COVID-19 which resulted in a national lockdown of the country for an initial period of 21 days from 26 March 2020, which was subsequently extended.

To support the credit transmission mechanism of the South African economy, given the impact of COVID-19, the South African Reserve Bank (SARB) announced reductions in the Repo (repurchase) rate. In addition, facilitated by the SARB, the government has also implemented a bond purchase programme to provide liquidity to banks and enable a well-functioning credit transmission mechanism. The fiscal profile of South Africa has resulted in sovereign credit rating downgrades. The Group's credit rating was also affected by this based on the link of the Group to the sovereign.

Credit risk from balances with banks and financial institutions is managed by the Group's treasury department in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed annually or when the need arises. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty failure.

The Group has the following types of financial assets that are subject to the expected credit loss model:

- trade receivables from the Group's ordinary activities
- contract assets
- finance lease receivables
- loans to subsidiaries
- asset finance receivables
- cash and cash equivalents

Notes to the financial statements continued

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15.3 Credit risk

15.3.1 Credit risk management continued

The maximum exposure to credit risk for financial assets at the reporting date by type of instrument and counterparty was:	Group – Carrying amount		Company – Carrying amount	
	2020 Rm	2019 Rm	2020 Rm	2019 Rm
Trade receivables (refer to note 20)	4 867	5 884	4 678	5 278
Telkom SA	6 627	6 968	5 871	6 283
Business and residential	2 948	1 970	2 947	1 970
Global, corporate and wholesale	3 567	3 498	2 980	3 132
Government	794	1 153	794	1 153
Other customers	(682)	347	(850)	28
South African subsidiaries	117	123	–	–
Impairment of trade receivables (refer to note 20)	(1 877)	(1 207)	(1 193)	(1 005)
Contract assets (refer to note 20)	1 979	2 161	1 849	2 161
Gross contract assets	2 411	2 331	2 281	2 331
Impairment of contract assets (refer to note 20)	(432)	(170)	(432)	(170)
Subtotal for trade receivables and contract assets	6 846	8 045	6 527	7 439
Other receivables	1 794	854	1 394	2 668
Derivatives	533	231	507	229
Other investments*	212	1 642	161	1 574
Finance lease receivables	253	318	253	318
Net cash and cash equivalents	4 726	1 428	3 233	575
	14 364	12 518	12 075	12 803

* Restated. Refer to note 2.4.

15.3.2 Impairment of financial assets

The approach and methodology applied by Telkom when calculating expected credit losses under IFRS 9 is shown in the sub-sections below. Refer to note 20 for the reconciliation of the expected credit loss balances recognised.

15.3.2.1 Trade receivables and contract assets

The Group's receivables are split between different customer segments. Lifetime expected credit losses are calculated, per segment, for trade receivables using the simplified approach, as the instruments do not contain a significant financing component. This is calculated using a provision matrix which has been derived from the Group's historic ageing and write-off data by considering the expected provision of a debtor based on its age at the end of the reporting period, as well as a provision being raised for the debtor based on the likelihood of it ending up in the ageing category where the instrument is likely to be written off.

Where a customer's service has been suspended or cancelled, an additional impairment is raised based on the historical write-off amount for trade receivables which have been included in the suspended/cancelled category.

For device debtors, Telkom uses loss rates from the trade receivables ageing analysis. These aren't applied at a segment level, but an average loss rate is calculated per ageing bucket, evenly weighting the various segments and applying these across the whole.

Application of forward-looking information as a result of COVID-19 – Provision matrix

COVID-19 was assessed as a condition which existed as at 31 March 2020. As such, events after 31 March 2020 were assessed to determine if they provide further information about the COVID-19 condition.

Impairment losses were calculated using the simplified approach, with historical losses used as an input to parameterise the expected loss percentage. The methodology considers expected losses over the average remaining life, with the historical calibration period selected to adequately capture the risk of the portfolio.

Management included an overlay to consider the expected impact of the current COVID-19 stress. The changes in percentage movements in the default rates within the credit ratings were analysed at reporting date at a customer profile level and these changes were then applied to existing ECL ratios.

Based on this, the ECL for trade receivables has increased by R419 million under the provision matrix method which is material to the Group.

Segments	Recognised COVID-19 impact R'000	2% Increase on COVID-19 stress R'000	5% Increase on COVID-19 stress R'000
Consumer	108 349	111 068	114 109
Openserve	116	121	127
Gyro	12 721	12 727	12 737
BCX	288 120	289 467	290 925
Other	9 506	10 205	10 878
	418 812	423 589	428 776

By applying the 2% and 5% increase on the COVID-19 overlay, Telkom Company's trade receivable ECL would increase by R2.4 million and R5.2 million, respectively, which is not material to Telkom Company.

By applying the 2% and 5% increase on the COVID-19 overlay, the Telkom Group's trade receivable ECL would increase by R4.8 million and R10 million, respectively, which is not material to the Group.

Post write-off recoveries

Telkom Company receivable books debtor shows that a significant proportion of recoveries come through subsequent to an account being written off. In the fixed-line book, for example, accounts are written off fairly quickly, as the collection strategy after write-off is more effective than before. Post write-off recoveries are taken into account in the expected credit loss model.

The ageing of trade receivables at the reporting date was:	Group – Carrying amount			Company – Carrying amount		
	2020			2020		
	Trade receivables ageing Rm	Allowance for expected credit losses ageing Rm	Average expected credit loss ratio %	Trade receivables ageing Rm	Allowance for expected credit losses ageing Rm	Average expected credit loss ratio %
Current	3 624	224	6.2	3 380	76	2.2
21 to 60 days	698	110	15.8	544	73	13.5
61 to 90 days	213	98	46.0	155	64	41.1
91 to 120 days	117	57	48.9	70	45	64.8
120+ days	2 092	1 387	66.3	1 722	935	54.3
	6 744	1 877	27.8	5 871	1 193	20.3

The ageing of trade receivables at the reporting date was:	Group – Carrying amount			Company – Carrying amount		
	2019			2019		
	Trade receivables ageing Rm	Allowance for expected credit losses ageing Rm	Average expected credit loss ratio %	Trade receivables ageing Rm	Allowance for expected credit losses ageing Rm	Average expected credit loss ratio %
Current	3 340	61	1.8	3 154	49	1.6
21 to 60 days	912	42	4.6	766	38	5.0
61 to 90 days	397	38	9.6	306	34	11.1
91 to 120 days	226	41	18.1	174	32	18.4
120+ days	2 216	1 025	46.3	1 883	852	45.2
	7 091	1 207	17.0	6 283	1 005	16.0

The movement in the allowance for impairment in respect of trade receivables during the year is disclosed in note 20.

Included in the allowance for doubtful debts for Telkom Company, are individually impaired receivables with a balance of R89 million (31 March 2019: R211 million) which have been identified as being unable to service their debt obligation. The impairment recognised represents the difference between the carrying amount of these trade receivables and the present value of the future cash flows. The Group does not hold any collateral over these balances.

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15.3 Credit risk continued

15.3.2 Impairment of financial assets continued

15.3.2.1 Trade receivables and contract assets continued

	Group & Company – Carrying amount			Group & Company – Carrying amount		
	2020			2019		
	Contract asset ageing Rm	Allowance for expected credit losses ageing Rm	Average expected credit loss ratio %	Contract asset ageing Rm	Allowance for expected credit losses ageing Rm	Average expected credit loss ratio %
The ageing of contract assets at the reporting date was:						
Current	480	68	14.3	247	4	1.6
21 to 60 days	308	58	18.9	219	11	5.0
61 to 90 days	389	72	18.6	247	27	10.9
91 to 120 days	274	52	18.9	384	71	18.5
120+ days	960	181	18.8	1 234	57	4.6
	2 411	432	17.9	2 331	170	7.3

COVID-19 impact on contract assets

Impairment losses were calculated using the simplified approach, with historical losses used as an input to parameterise the expected loss percentage. The methodology considers expected losses over the average remaining life, with the historical calibration period selected to consider expert judgement on the portfolio's performance going forward.

The Group has based the measurement of expected credit losses ("ECL") on an unbiased, probability-weighted amount that is determined by evaluating a range of possible outcomes and reflecting the time value of money.

Management included an overlay to consider the expected impact of the current COVID-19 stress. The methodology for this overlay was aligned to the approach used for trade receivables, which used the 2008 crisis for calibration purposes.

The Group has adjusted the loss rates used to calculate the ECL on contract assets. Based on this approach, the ECL has increased by R207 million.

Management has analysed the impact of COVID-19 on contract assets, assuming a 2% and 5% increase on the COVID-19 overlay. The results of the analysis have been summarised as follows:

	Current rate incl COVID-19	2% Increase on COVID-19 stress	5% Increase on COVID-19 stress
Expected loss rate	4.24% to 23.60%	4.40% to 23.76%	4.67% to 24%

By applying the 2% and 5% increase on the COVID-19 overlay, the Company's and Group's existing contract asset ECL would increase by R4.6 million and R12 million respectively, which is not material to the Group.

15.3.2.2 Finance lease receivables and asset finance receivables

The Group recognises lifetime expected credit losses on finance lease receivables and asset finance receivables in terms of the simplified approach. Whenever an amount receivable is billed, the amount is moved from finance leases or asset finance receivables to trade receivables and forms part of the trade receivables balance. To determine an expected credit loss for the outstanding lease receivables, the total outstanding amounts are proportioned into the various ageing buckets based on the proportions experienced in trade receivables, specifically the fixed-line segment. The same loss rates that are used for the trade receivables segment are then applied to the outstanding lease receivables balance to derive the expected loss on finance lease receivables over the lifetime of the instrument.

The underlying assumption attached to this is that the exposure to the finance lease balance will realise as the balance is billed to the customer over the lifetime of the instrument and will thus follow the same pattern of expected loss as the trade receivable balance.

15.3.2.3 Cash and cash equivalents

Twelve month expected credit losses are calculated for cash and cash equivalents using the general approach. Due to the fact that the Group's cash and cash equivalents are noted as being current assets, the twelve month and lifetime expected losses are expected to be equivalent. In addition, given that these amounts are invested with South Africa's largest four banks, management's expectation is that the impact on the total impairment is negligible.

As at the reporting date, the Group has not recognised any expected credit losses for cash and cash equivalents. This approach will only be reconsidered should there be a future downgrade of the banks with which the amounts are invested.

15.3.2.4 Intercompany loans

Telkom Company has intercompany loans with BCX. The exposure to this entity is R128 million. All the loans made by Telkom SA SOC Limited in its subsidiaries are accounted for at amortised cost. Loans to subsidiaries are considered to have low credit risk as the subsidiaries are performing well and there has been no deterioration of credit risk since the loans were originated. Therefore, the expected credit loss allowance recognised during the period was limited to the 12-month expected credit loss. No material expected credit loss was accounted for on any of these instruments. Refer to note 16.1.2 for key assumptions applicable to intercompany loans.

15.4 Liquidity risk management

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group is exposed to liquidity risk as a result of variable cash flows as well as capital commitments of the Group.

Liquidity risk is managed by the Group's treasury department in accordance with policies and guidelines formulated by the Group's executive Committees. There was a material change in the Group's exposure to liquidity risk and its objectives, policies and processes for managing and measuring the risk during the 2020 financial year due to the impact of the COVID-19 pandemic. The Group has maintained elevated levels of liquidity, in response to the potential impact and pandemic. This will also mitigate the risk of credit ratings downgrades. In terms of its borrowing requirements, the Group ensures that sufficient facilities exist to meet its immediate obligations. Short-term liquidity shortfalls may be funded through undrawn committed facilities.

The table below summarises the maturity profile of the Group's financial liabilities based on undiscounted contractual cash flows at the reporting date.

		Group					
	Note	Carrying amount Rm	Contractual cash flows Rm	0 - 12 months Rm	1 - 2 years Rm	2 - 5 years Rm	>5 years Rm
2020							
Non-derivative financial liabilities							
Interest-bearing debt	27	12 005	13 457	2 052	314	2 245	8 845
Credit facilities utilised	23	2	2	2	–	–	–
Lease liabilities	13	4 775	6 064	1 101	1 089	2 403	1 471
Trade and other payables	31	8 339	8 339	8 339	–	–	–
Shareholders for dividend	36	31	31	31	–	–	–
Asset finance payables	22	119	202	102	33	67	–
Financial guarantees	22	13	47	47	–	–	–
Vendor financing	22	176	176	176	–	–	–
Derivative financial liabilities							
Interest rate swaps	22	143	143	143	–	–	–
Firm commitments	22	530	530	530	–	–	–
		26 133	28 991	12 523	1 436	4 715	10 316
2019							
Non-derivative financial liabilities							
Interest-bearing debt (excluding finance leases)	27	10 198	10 379	5 554	801	1 746	2 278
Trade and other payables*	31	6 536	6 536	6 536	–	–	–
Finance lease liabilities	27	43	45	29	15	1	–
Shareholders for dividend	36	29	29	29	–	–	–
Asset finance payables**	22	115	115	36	40	39	–
Vendor financing	22	107	107	107	–	–	–
Derivative financial liabilities							
Interest rate swaps	22	30	30	30	–	–	–
Firm commitments	22	237	237	237	–	–	–
Forward exchange contracts	22	13	13	13	–	–	–
		17 308	17 491	12 571	856	1 786	2 278

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15.4 Liquidity risk management continued

	Note	Company					
		Carrying amount Rm	Contractual cash flows Rm	0 - 12 months Rm	1 - 2 years Rm	2 - 5 years Rm	>5 years Rm
2020							
Non-derivative financial liabilities							
Interest-bearing debt	27	12 005	12 109	1 900	193	1 881	8 135
Lease liabilities	13	6 674	8 023	1 775	1 738	3 640	870
Trade and other payables	31	10 716	10 716	10 716	–	–	–
Shareholders for dividend	36	31	31	31	–	–	–
Derivative financial liabilities							
Interest rate swaps	22	143	143	143	–	–	–
Firm commitments	22	530	530	530	–	–	–
		30 099	31 552	15 095	1 931	5 521	9 005
2019							
Non-derivative financial liabilities							
Interest-bearing debt (excluding finance leases)	27	10 194	10 374	5 550	800	1 746	2 278
Trade and other payables*	31	10 941	10 941	10 941	–	–	–
Shareholders for dividend	36	29	29	29	–	–	–
Derivative financial liabilities							
Interest rate swaps	22	30	30	30	–	–	–
Firm commitments	22	237	237	237	–	–	–
Forward exchange contracts	22	13	13	13	–	–	–
		21 444	21 624	16 800	800	1 746	2 278

* Restated. Refer to note 2.4.

** In the prior year financial statements, asset finance payables were incorrectly disclosed as part of derivative financial liabilities. This was immaterial for the prior year. This has been corrected in the current year and the prior year has been restated for comparability.

15.5 Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The objective of market risk management is to manage and control market risk exposure. Market risks comprise four types of risk: interest rate risk, currency risk, commodity price risk and other price risk, such as equity risk.

Changes in the market prices have an impact on the values of the underlying derivatives and an analysis has been prepared on the basis of changes in one variable and all other variables remaining constant.

There has been significant changes in the levels of market risk in the current period due to the impact of COVID-19. This has given rise to increased levels of volatility in both local and global markets. The associated impact and volatility were experienced in the foreign currency markets, levels and interest rates and commodity prices.

Given Telkom's conservative approach to foreign currency risk and the combination of fixed versus floating ratio of debt has largely mitigated the impact of COVID-19 on its financial profile.

Interest rate risk management

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk arises from the repricing of the Group's forward cover and floating rate debt as well as incremental funding or new borrowings and refinancing of existing borrowings.

The Group's policy is to manage interest cost through the utilisation of a mix of fixed and floating rate debt. In order to manage this mix in a cost efficient manner and to hedge specific exposure in the interest rate repricing profile of the existing borrowings, the Group makes use of interest rate swaps. Fixed rate debt represents approximately 48% (2019: 70%) of the total debt. The debt has been maintained to limit the Group's exposure to interest rate increases.

The guideline is to target a fixed/floating debt ratio of 65% fixed, but adjusted to market conditions. In a scenario of low interest rates, a higher ratio may be established.

15.5 Market risk continued

The table below summarises the interest rate swaps outstanding as at the reporting date:	Group		Company	
	Average maturity	Notional amount Rm	Average maturity	Notional amount Rm
2020				
Interest rate swaps outstanding				
Pay fixed and receive floating	3.4 years	3 519	3.4 years	3 519
2019				
Interest rate swaps outstanding				
Pay fixed and receive floating	4 years	2 982	4 years	2 982

The floating rate is based on the three-month JIBAR, and is settled quarterly in arrears. The interest rate swaps are used to manage the interest rate risk on debt instruments.

Foreign currency exchange rate risk management

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's foreign currency exposure arises in its procurement environment where OPEX and CAPEX items are procured from international suppliers. The Group manages its foreign currency exchange rate risk by hedging all identifiable exposures via various financial instruments suitable to the Group's risk exposure.

The Group enters into forward exchange contracts to hedge foreign currency exposure of the Group's operations and liabilities.

Refer to note 22 for the balances recognised relating to hedging instruments and hedged items.

The following table details the forward exchange contracts outstanding at the reporting date:	Group		Company	
	Foreign contract value m	Contract value Rm	Foreign contract value m	Contract value Rm
Purchased				
2020				
Currency				
USD	449	3 388	200	3 111
Euro	13	233	13	233
Other	5	14	1	10
		3 635		3 354
2019				
Currency				
USD	415	5 982	386	5 560
Euro	14	241	14	239
Other	5	97	5	92
		6 320		5 891
Sell				
2020				
Currency				
USD	12	15	–	–
		15		–
2019				
Currency				
USD	5	79	–	–
Euro	–	–	–	–
GBP	4	80	4	80
		159		80

The Group has various monetary assets and liabilities in currencies other than the parent Company's functional currency. The following table represents the net currency exposure (net carrying amount of foreign denominated monetary assets and liabilities) of the Group according to the different foreign currencies.

Notes to the financial statements continued

for the year ended 31 March 2020

15. Financial instruments and risk management continued

15.5 Market risk continued

	Group			Company		
	Euro Rm	United States Dollar Rm	Other Rm	Euro Rm	United States Dollar Rm	Other Rm
2020						
Net foreign currency monetary assets/(liabilities)						
Functional currency of Company operation						
South African Rand	(46)	(1 076)	1	(47)	(1 077)	–
2019						
Net foreign currency monetary assets/(liabilities)						
Functional currency of Company operation						
South African Rand	(170)	(856)	1	(171)	(864)	–

Sensitivity analysis

Interest rate risk

An interest rate sensitivity analysis is based on an increase or decrease of 1% (100 basis points) in the South African market interest rates and the prevailing information as at the reporting date.

The analysis assumes that all other variables remain constant. The analysis and changes in interest rates is performed on the same basis as was used in prior years.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's and Company's profit for the year ended 31 March 2020 would decrease/increase by R109 million (31 March 2019: decrease/increase by R102 million) and R100 million, respectively.

The following table illustrates the sensitivity to a 100 basis points change in the interest rates on profit before taxes, with all other variables held constant:

Classes of financial instruments per statement of financial position	Group movement		Company movement	
	+ 1% Profit Rm	– 1% Profit Rm	+ 1% Profit Rm	– 1% Profit Rm
2020				
Assets				
Other financial assets	7	(7)	7	(7)
Forward exchange contracts	7	(7)	7	(7)
Liabilities				
Other financial liabilities	93	(93)	93	(93)
Interest rate swaps	93	(93)	93	(93)
Interest-bearing debt	9	(9)	–	–
	109	(109)	100	(100)
2019				
Assets				
Other financial assets	22	(22)	22	(22)
Forward exchange contracts	22	(22)	22	(22)
Liabilities				
Other financial liabilities	80	(80)	80	(80)
Interest rate swaps	80	(80)	80	(80)
	102	(102)	102	(102)

Foreign exchange currency risk

The foreign currency sensitivity analysis is based on a 10% strengthening or weakening of the rand against all currencies, from the rates applicable and prevailing information as at the reporting date.

If foreign exchange rates had been 10% higher/lower and all other variables were held constant, the Group's and Company's profit for the year ended 31 March 2020 would increase/decrease by R94 million for Group (31 March 2019: increase/decrease by R38 million) and R96 million for Company (31 March 2019: increase/decrease by R22 million).

The following table illustrates the sensitivity to a 10% change in the exchange rates before taxes, with all other variables held constant:

Classes of financial instruments per statement of financial position	Group		Company	
	+ 10% movement (Deprecia- tion) Rm	- 10% movement (Apprecia- tion) Rm	+ 10% movement (Deprecia- tion) Rm	- 10% movement (Apprecia- tion) Rm
2020				
Assets				
Other financial assets	385	(335)	382	(332)
Forward exchange contracts	385	(335)	382	(332)
Foreign trade receivables	1	(1)	-	-
Liabilities				
Other financial liabilities	(272)	222	(272)	222
Firm commitments	(272)	272	(272)	272
Forward exchange contracts	-	(50)	-	(50)
Interest-bearing debt	(14)	14	(14)	14
Financial guarantees	(1)	1	-	-
Foreign trade payables	(5)	5	-	-
	94	(94)	96	(96)
2019				
Assets				
Other financial assets	578	(578)	578	(578)
Forward exchange contracts	578	(578)	578	(578)
Liabilities				
Other financial liabilities	(588)	588	(588)	588
Firm commitments	(588)	588	(588)	588
Forward exchange contracts	-	-	-	-
Interest-bearing debt	(28)	28	(12)	12
	(38)	38	(22)	22

15.6 Equity price risk

The Group's investments are susceptible to market price risk arising from uncertainties about future values of the investment securities. Changes in the fair value of equity securities held by the Group will fluctuate because of changes in market prices, caused by factors specific to the individual equity issuer, or factors affecting all similar equity securities traded on the market. The Group is not exposed to commodity price risk. The Group manages the equity price risk through diversification and placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the Group's senior management on a regular basis. The Group's Board of directors reviews and approves all equity investment decisions above R100 million.

At the reporting date, the total amount for local equity investments was R212 million (31 March 2019: R1 642 million). A 10% increase (31 March 2019: 5% increase) in the local equity portfolios at the reporting date would have increased profit or loss by R21 million (31 March 2019: R82 million) before tax. An equal and opposite change would have decreased profit or loss. A 10% fluctuation represents management's assessment of the reasonably possible changes in equity prices.

There will be no other impact on equity as the equity securities are classified as at fair value through profit or loss. The analysis assumes that all other variables remain constant and is performed on the same basis as the prior year.

15.7 Capital management

The Group's policy is to manage the capital structure to ensure maximisation of shareholders' return, growth and ability to meet its obligations. Capital comprises equity and net debt which is monitored using, inter alia, a net debt to EBITDA ratio. The Group's guidance is to keep the ratio below 1.5 times (excluding IFRS 16).

Net debt is defined as interest-bearing debt and credit facilities utilised, less cash and cash equivalents. EBITDA is defined as earnings before depreciation, amortisation, impairment and losses, investment income, finance charges and fair value movements and taxation and includes significant financing revenue recognised under IFRS 15 *Revenue from Contracts with Customers*.

The Group's dividend policy, of an annual dividend of 60 percent of headline earnings with an interim dividend of 40 percent of interim headline earnings, aims to provide shareholders with a competitive return on their investment, while assuring sufficient reinvestment of profits to achieve its strategy. The determination to pay dividends, and the amount of dividends, will be based on a number of factors, including the consideration of the financial results, capital and operating requirements, net debt levels and growth opportunities.

Notes to the financial statements continued

for the year ended 31 March 2020

15. Financial instruments and risk management continued

15.7 Capital management continued

	Group		Company	
	31 March 2020 Rm	31 March 2019 Rm	31 March 2020 Rm	31 March 2019 Rm
The net debt (excluding lease liabilities) at reporting date was as follows:				
Non-current portion of interest-bearing debt	10 105	4 840	10 105	4 824
Current portion of interest-bearing debt	1 900	5 401	1 900	5 370
Credit facilities utilised	2	–	–	–
Less: Cash and cash equivalents	(4 728)	(1 428)	(3 233)	(575)
Net debt	7 279	8 813	8 772	9 619

16. Investments

16.1 Investment in subsidiaries and loans and preference share investment in subsidiaries

16.1.1 Investment in subsidiaries

	Company	
	31 March 2020 Rm	Restated 31 March 2019 Rm
Yellow Pages (formerly known as TDS Directory Operations/Trudon) Proprietary Limited	8 418	2 986
100% shareholding at cost	326	167
Swiftnet Proprietary Limited (Gyro Masts and Towers)		
100% shareholding at cost	1 239	25
Business Connexion Group Limited (BCX)		
100% shareholding at cost	6 579	2 654
Gyro Properties Proprietary Limited*		
100% shareholding at cost (R100)	129	–
Gyro Solutions Proprietary Limited*		
100% shareholding at cost (R100)	5	–
Investment in FutureMakers fund	140	140