

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

16.1.2 Loans and preference share investment in subsidiaries

	Carrying value	
	31 March 2020 Rm	31 March 2019 Rm
Loans to BCX*	–	3 615
1. An interest-bearing loan was granted to assist BCX in acquiring the Cybernest business unit. The loan accrues interest at a prevailing six-month JIBAR rate plus 200 basis points. The loan term is five years, payable in equal bi-annual repayments commencing after the first anniversary following the effective date.		
The other loan to BCX relates to the repayment of the RMB loan as well as a revolving facility to assist BCX with working capital requirements. These loans accrue interest at rates linked to the three-month JIBAR with variables of 1.9%.	–	128
2. Telkom also holds preference shares relating to the sale of the Enterprise business in November 2016 to BCX at a fixed interest rate of 13.5% over a 15-year period.	–	3 487
Current portion of Cybernest and RMB loans	128	152
Gyro preference shares*		
Telkom held preference shares to the value of R1 186 million in the Gyro Group. All preference shares were issued effective 1 April 2017 and are repayable in 15 years. In the current financial year, these preference shares were converted to equity. The preference shares are split as follows:	–	1 186
Gyro Properties: The preference share carries interest at a fixed rate of 15.3%	–	113
Gyro Solutions: The preference share carries interest at a fixed rate of 15.3%	–	4
Gyro Masts and Towers: The preference share carries interest at a fixed rate of 14.9%	–	1069

* In the current financial year, the BCX and Gyro preference shares liability was waived. The waiver was accounted for as capital contribution because the waiver arises from Telkom acting in its capacity as parent/shareholder. As a result, the waiver has been reflected as an additional investment in the subsidiary.

Loans key assumptions

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 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. The carrying value of loans and preference shares approximate the fair value as the instruments have been granted on market related terms.

Notes to the financial statements continued

for the year ended 31 March 2020

16. Investments continued

16.2 Other investments

16.2.1 Non-current other investments

	Group		Company	
	31 March 2020 Rm	31 March 2019 Rm	31 March 2020 Rm	Restated 31 March 2019 Rm
Non-current other investments				
Unlisted investment	62	78	–	–
FutureMakers Fund	51	69	–	–
Investment	61	79	–	–
Devaluation/Impairment	(10)	(10)	–	–
Investment in associates	11	9	–	–

16.2.2 Current other investments

Current other investments	207	1 573	207	1 574
At fair value through profit or loss	161	1 573	161	1 574
ABSA sinking fund investment	161	1 573	161	1 574
Investment in insurance cell captive	46	–	46	–
Initial investment	5	–	5	–
Insurance service result	41	–	41	–
Insurance service result				
At 1 April	–	–	–	–
Net insurance revenue	41	–	41	–
Premiums earned	189	–	189	–
Claims paid	(119)	–	(119)	–
Investment income	8	–	8	–
Other expenses	(20)	–	(20)	–
Taxation paid	(17)	–	(17)	–
At 31 March	41	–	41	–

FutureMakers Fund

This fund is an Enterprise and Supplier Development (ESD) programme. In partnership with Identity FutureFund (Pty) Ltd, the fund was created in terms of the Department of Trade and Industry's Code of Good Practice on Black Economic Empowerment 2007, as amended, and specifically in terms of the Information and Technology Charter.

Telkom Company accounts for this at cost as an investment in a subsidiary. Telkom Group consolidates the fund and holds the investments within the fund at fair value. The underlying investments in the fund has been designated as at fair value through profit or loss as this more appropriately reflects the basis on which management measures and monitors the performance of the investment. No change was made to this designation following the adoption of IFRS 9. In 2018, the partnership agreement was amended to also include BCX. BCX invested an amount of R100 million which is reflected as a financial asset in the BCX stand-alone financial statements and included in cash and cash equivalents in the Group financial statements.

Investment in associate

The Number Portability Company (NPC) was incorporated in response to Regulations of 2005 that required a national centralised database of ported numbers for mobile numbers. The investment has been classified as an associate in line with the requirements of the revised IAS 28 *Investments in Associates*. The year end of the associate, 31 December, is different to that of the Company and the impact is not material.

Absa sinking fund investment

The Absa sinking fund investment is accounted for at fair value through profit or loss. The investment is a part of the Absa cell captive which is held in the form of a 100% preference share. The cell captive is divided into two ringfenced funds. The annuity fund, which serves as the fund asset for Telkom's Post Retirement Medical Aid liability (refer to note 30) and the sinking fund. The investment above relates to the sinking fund and represents the fair value of the underlying investments made by the fund. The sinking fund is invested in highly liquid instruments and is classified as a current asset as it is management's intention to liquidate portions of the asset in the short term.

The significant decrease in the Absa sinking fund investment was due to a withdrawal of R1.5 billion that took place in the current financial year.

Investment in insurance cell captive

Telkom has entered into a cell captive agreement with Mutual and Federal, to allow Telkom's customers to insure their devices. This cell captive arrangement is accounted for in terms of IFRS 4 *Insurance Contracts*. The detailed accounting treatment has been set out in note 2.6.24.

Fair value

Refer to note 15.2 for the respective fair value disclosures related to the investments noted above.

16.3 Impairment considerations

The Company holds a 100% interest in BCX and accounts for this investment as a subsidiary in terms of IAS 27 *Separate Financial Statements*. Under IAS 36, the Group is required to test investments in subsidiaries carried at cost for impairment if there is an indicator of impairment.

Management identified an impairment indicator regarding the material investment in BCX due to the matters noted in the goodwill section and performed impairment tests as a result (refer to note 14).