Notes to the financial statements continued

for the year ended 31 March 2024

6. Financing structure and commitments continued

6.3 Right-of-use assets and lease liabilities

Significant accounting judgements, estimates and assumptions

Lease term

Renewal and termination options
In determining the lease term, all facts and circumstances are considered that create an economic incentive to exercise a renewal option, or not exercise a termination option. Renewal options and periods after termination options are only included in the lease term if the lease is reasonably certain to be extended or not terminated. The Group applies judgement in assessing whether it is reasonably certain that options will be exercised. Factors considered include the past history of renewing leases, the length of the non-cancellable period of the lease, the Group's rolling budgeting forecast period of five years and the importance of the underlying asset to the Group's operations. The Group applied the rolling budgeting forecast period on all its strategic month-to-month leases or strategic leases with indefinite lease periods.

The lease term will be reassessed at the occurrence of a significant event, which is either a change in the rolling forecast cycle or other major events not within the Group's control.

Month-to-month leases
The Group has leases that continue contractually on a month-to-month basis for an indefinite period or continue automatically on a month-to-month basis after expiry. In these agreements, the Group can terminate the agreement and neither party would incur a contractual penalty payment on termination. However, in determining the lease term, the Group considered the broader economics of the contract including factors such as the strategic importance of the asset, whether alternative suitable locations are available, the budgeting forecast cycle, and that management is not reasonably certain of business decisions that it will take beyond this period. Based on the above, the lease term of all strategic month-to-month leases are aligned with the budgeting forecast cycle.

Lease discount rate
Except where a discount rate implicit in the lease has been stipulated in the lease agreement, the lease payments are discounted using the incremental borrowing rate. The calculation of an incremental borrowing rate requires significant judgement. The incremental borrowing rate is calculated as a function of base rate, plus credit spread, plus other adjustments. Other adjustments take into account the lease period, currency of the lease payments, lease duration and lease-specific adjustments such as asset class and country risk premiums.

Base rate is a risk-free rate based on the interest rate swap curve of the country of the lease payments currency and the base is matched to the lease period.

The credit spread for the Company is based on Telkom's bond yield spread over the equivalent risk-free rate. The credit spread for other Group entities (BCX, Gyro, Openserve and Trudon) is based on their credit spread relative to the Group.

Lease and non-lease components
In lease agreements, where the gross rental amount includes operational costs, the Group applies judgement in allocating the consideration in the contract to each lease and non-lease component based on their relative stand-alone selling prices. The stand-alone selling prices of each component are based on available market prices. In such cases where the market price is unavailable, the stand-alone selling price will be calculated.

Impairments of right-of-use assets
Management is required to make judgements concerning the cause as well as the amount of impairment. In the identification of impairment indicators, management considers the impact of changes in current competitive conditions, cost of capital, availability of funding, technological obsolescence, discontinuance of services, market changes, legal changes, operating environments and other circumstances that could indicate that an impairment exists. The Group applies the impairment assessment to its cash-generating units. This requires management to make significant judgements concerning the existence of impairment indicators, identifying cash-generating units, and estimating the remaining useful lives of assets as well as projected cash flows to determine fair value less costs of disposal or value in use. Management's analysis of cash-generating units involves an assessment of the ability of a group of assets to independently generate cash inflows, and involves analysing the extent to which different products make use of the same assets. Management's judgement is also required when assessing whether there are indicators that a previously recognised impairment loss should be reversed.

Where impairment indicators exist, the determination of the recoverable amount of a cash-generating unit requires management to make assumptions to determine the value in use. Value in use is calculated using the discounted cash flow valuation method. The determination of value in use is based on a number of factors which include the discount rate, revenue growth, EBITDA margins and capital expenditure. The judgements, assumptions and methodologies used can have a material impact on the recoverable amount and ultimately the amount of impairment loss recognised.

Notes to the financial statements continued

for the year ended 31 March 2024

6. Financing structure and commitments continued

6.3 Right-of-use assets and lease liabilities continued

Summary of material accounting policies
The Group's leases include network equipment (mainly consisting of masts and towers), property and vehicles.

The Group as a lessee
At inception of a contract, the Group considers whether a contract is or contains a lease. A contract is or contains a lease if the contract conveys the right to use an identified asset (the underlying asset) for a period of time in exchange for consideration. To apply this definition, the Group assesses whether the contract meets three key conditions, which are whether:

- The contract contains an identified asset, which is either explicitly or implicitly identified in the contract;
- The Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and
- The Group has the right to direct the use of the identified asset throughout the period of use. The Group assesses whether it has the right to direct how and for what purpose the asset is used throughout the period of use.

Recognition of leases
At the commencement date of a lease, the Group shall recognise a right-of-use asset and lease liability for contracts that are or contain a lease, except in the case where recognition exemptions are elected.

The Group has elected to apply the following recognition exemptions:

Recognition exemptions

Short-term leases	Leases that, at the commencement date, have a lease term of 12 months or less (after considering lease extension options and management's intention with the use of the leased asset) are expensed on a straight-line basis over the lease term. This is accounted for in the lease-related expenses line item on the statement of profit or loss and other comprehensive income.
Low-value assets	All leases, where the underlying asset being used is of low value, are assessed on a lease-by-lease basis and expensed on a straight-line basis over the lease term. This is accounted for in the lease-related expenses line item on the statement of profit or loss and other comprehensive income. Leased assets are classified as low value if the value of the asset is R73 200 or less when purchased new, regardless of the age of the asset. The low-value criteria are applied to the underlying asset that can benefit the entity on its own or together with an asset that is readily available in the market, and the underlying asset is neither highly dependent on nor highly inter-related with other assets. As required by IFRS 16, if an asset is subleased by the Group, the head lease is not accounted for as a low-value lease even when the low-value criteria are met.

Lease and non-lease components
A number of lease contracts include both lease and non-lease components. The Group allocates the consideration in the contract to each lease and non-lease component based on the amount as stipulated in the lease agreement as the rental for the asset is separate from the operational costs in the majority of the agreements. In lease agreements, where the gross rental amount includes operational costs, an estimate will be made to determine which portion of the gross rental relates to operational costs, which will inform the separation of the operational costs on these contracts. The Group has not elected the practical expedient to account for non-lease components as part of its lease liabilities and right-of-use assets. Therefore, non-lease components are accounted for as operating expenses and are recognised in profit or loss as they are incurred.

Right-of-use assets – initial and subsequent measurement
After the adoption date, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). The right-of-use assets are measured at cost, which is made up of the initial measurement of the lease liabilities, any initial direct costs incurred by the Group, any lease payments made in advance of the lease commencement date, less any lease incentives received. Right-of-use assets are subsequently measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of any lease liabilities. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term. Right-of-use assets are subject to impairment in accordance with the principles of IAS 36 (Impairment of Assets).

The Group has elected not to recognise right-of-use assets and lease liabilities for some leases of low-value assets (e.g. office equipment) and for short-term leases, i.e. leases that, at commencement date, have lease terms of 12 months or less. The Group defines low-value leases as leases of assets for which the value of the underlying asset is R73 200 or less when it is new. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Lease liabilities – initial and subsequent measurement
At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that are based on an index or rate (measured using the index or rate at commencement date) and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the Group is reasonably certain to exercise the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers those payments occurs.

Subsequent to initial measurement, the lease liability will be reduced for payments made and increased by the interest cost. Interest costs are included in finance charges in the statement of profit or loss and other comprehensive income over the lease period. Lease liabilities are remeasured when there is a change in future lease payments arising from a change in index or rate, a change in the estimate of the amount payable under a residual value guarantee or, as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised. Furthermore, a revision to Telkom's rolling budget/forecast is considered a significant event which would trigger a reassessment of the lease term. Any change to the lease term would result in a remeasurement of the associated lease liability.

Notes to the financial statements continued

for the year ended 31 March 2024

6. Financing structure and commitments continued

6.3 Right-of-use assets and lease liabilities continued

The Group as a lessor

Where the Group is a lessor, it determines at inception whether the lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset, and classified as an operating lease if it does not. The land and building elements of a lease of land and buildings are considered separately for the purposes of lease classification unless it is impracticable to do so.

Finance lease receivables are subject to the derecognition requirements of IFRS 9 as stipulated by IFRS 16. Finance lease receivables transferred with recourse remain classified as finance lease receivables. This is due to the fact that the derecognition criteria will not be met as the Company would not have transferred all the risks and rewards. Finance lease receivables transferred without recourse are derecognised as all the risks and rewards have been transferred.

Right-of-use assets and lease liabilities

The Group leases three asset categories, namely vehicles, property and network equipment. Vehicle leases mainly include a fleet of vehicles that are used by the technicians as part of the network operations. Property leases mainly relate to the lease of land and buildings/sites used for office purposes as well as property where masts and towers are erected. Network equipment mainly relates to the co-location on masts and towers and the lease of exchange assets.

The lease agreements do not impose any covenants on the Group. The existing leases do not have residual value guarantees.

At 31 March 2024, the Group has not committed to leases which have not yet commenced. There were no sale and leaseback transactions for the Group in the current or prior year.

Generally, the lease term is fixed but there is also a number of leases that run on a month-to-month basis. The Group applies judgement in assessing whether extension or termination options will be exercised and these options are only included in the lease term if the lease is reasonably certain to be extended or terminated.

In the current year, the lease calculation assumes that the Group will continue to use the strategic month-to-month contract for the next five years (current forecast period). Additionally, the Group concluded that it is reasonable that it will exercise available renewal options for all leases of strategic need, except in the case that there is evidence that it will not. For the rest of the assets, the lease calculation is based on the fixed term per the contract.

Some leases allow for earlier termination. In this case, the Group is required to serve a certain notice period and there is no financial penalty. At 31 March 2024, a number of lease contracts relating to network equipment and properties include renewal options for various renewal periods. Due to the judgement exercised in relation to the determination of the lease period as outlined in the accounting policy, the Group is exposed to potential future cash outflows relating to the renewal period which have not been included in the lease liability because it is not reasonably certain that the lease will be extended beyond the estimated lease period.

Notes to the financial statements continued

for the year ended 31 March 2024

6. Financing structure and commitments continued

6.3 Right-of-use assets and lease liabilities continued

6.3.1 Right-of-use assets

	2024			2023		
Group	**Cost Rm**	**Accumulated depreciation and write-offs Rm**	**Carrying value Rm**	Cost Rm	Accumulated depreciation and write-offs Rm	Carrying value Rm
Vehicles	**224**	**(141)**	**83**	245	(81)	164
Property	**1 310**	**(716)**	**594**	1 470	(626)	844
Network equipment	**8 736**	**(3 819)**	**4 917**	7 050	(2 698)	4 352
	10 270	**(4 676)**	**5 594**	8 765	(3 405)	5 360
Company						
Vehicles	**1**	**–**	**1**	1	–	1
Property	**439**	**(296)**	**143**	468	(258)	210
Network equipment	**8 802**	**(4 364)**	**4 438**	8 003	(3 169)	4 834
	9 242	**(4 660)**	**4 582**	8 472	(3 427)	5 045

The carrying amounts for the right-of-use assets can be reconciled as follows:

	Group						
2024	**Opening balance Rm**	**Cancelled leases Rm**	**New leases entered into Rm**	**Lease remeasurement[1] Rm**	**Depreciation[2] Rm**	**Reclassified to held for sale Rm**	**Closing balance Rm**
Vehicles	**164**	**(15)**	**1**	**9**	**(76)**	**–**	**83**
Property	**844**	**(26)**	**99**	**71**	**(215)**	**(179)**	**594**
Network equipment	**4 352**	**(37)**	**1 325**	**461**	**(1 184)**	**–**	**4 917**
	5 360	**(78)**	**1 425**	**541**	**(1 475)**	**(179)**	**5 594**

2023	Opening balance Rm	Cancelled leases Rm	New leases entered into Rm	Lease remeasurement Rm	Depreciation Rm	Closing balance Rm
Vehicles	44	(2)	196	10	(84)	164
Property	910	(65)	190	26	(217)	844
Network equipment	3 991	(80)	918	494	(971)	4 352
	4 945	(147)	1 304	530	(1 272)	5 360

[1] *Lease remeasurements include changes due to CPI escalations and lease modifications due to changes in lease contracts as well as lease renewals. Lease remeasurements are lower in the current year than in the prior year for the Group and Company, due to significant modifications done in FY2023 which were not required in FY2024.*

[2] *Included in the depreciation is R12 million (31 March 2023: R19 million) relating to Swiftnet. Refer to* *note 12.2*.

Notes to the financial statements continued

for the year ended 31 March 2024

6. Financing structure and commitments continued

6.3 Right-of-use assets and lease liabilities continued

6.3.1 Right-of-use assets continued

2024	Company Opening balance Rm	Cancelled leases Rm	New leases entered into Rm	Lease remeasurement[1] Rm	Depreciation Rm	Closing balance Rm
Vehicles	1	–	–	–	–	1
Property	209	(31)	22	29	(85)	144
Network equipment	4 835	(155)	479	597	(1 319)	4 437
	5 045	(186)	501	626	(1 404)	4 582

2023	Opening balance Rm	Cancelled leases Rm	New leases entered into Rm	Lease remeasurement Rm[1]	Depreciation Rm	Transfers[2] Rm	Closing balance Rm
Vehicles	27	–	183	–	(34)	(175)	1
Property	490	(56)	39	25	(131)	(158)	209
Network equipment	5 149	(95)	937	918	(1 274)	(800)	4 835
	5 666	(151)	1 159	943	(1 439)	(1 133)	5 045

[1] *Lease remeasurements include changes due to CPI escalations and lease modifications due to changes in lease contracts as well as lease renewals. Lease remeasurements are lower in the current year than in the prior year for the Group and Company, due to significant modifications done in FY2023 which were not required in FY2024.*

[2] *Transfers relate to leases that were transferred to Openserve (Pty) Ltd at their carrying value as part of the Openserve carve-out in the prior year.*

6.3.2 Lease liabilties

	Group 2024 Rm	2023 Rm
The closing balances for non-current lease liabilities can be reconciled as follows:		
Vehicles	(15)	(86)
Property	(680)	(866)
Network equipment	(3 405)	(3 665)
	(4 100)	(4 617)
The closing balances for current lease liabilities can be reconciled as follows:		
Vehicles	(80)	(84)
Property	(187)	(232)
Network equipment	(2 094)	(956)
	(2 361)	(1 272)

Notes to the financial statements continued

for the year ended 31 March 2024

6. Financing structure and commitments continued

6.3 Right-of-use assets and lease liabilities continued

6.3.2 Lease liabilities continued

	Company	
The closing balances for non-current lease liabilities can be reconciled as follows:	**2024 Rm**	2023 Rm
Property	**(112)**	(171)
Network equipment	**(3 676)**	(4 045)
	(3 788)	(4 216)

	Company	
The closing balances for current lease liabilities can be reconciled as follows:	**2024 Rm**	2023 Rm
Property	**(69)**	(81)
Network equipment	**(1 297)**	(1 058)
	(1 366)	(1 139)

The total cash outflow for leases, including finance charges, in 2024 was R1 787 million (31 March 2023: R1 574 million where R10 million relates to the discontinued operation – refer to note 12) for the Group and R1 682 million (31 March 2023: R1 778 million) for the Company. Finance charges on lease liabilities of R586 million (31 March 2023: R488 million where R10 million relates to the discontinued operation – refer to note 12) for the Group and R468 million (31 March 2023: R464 million) for the Company have been recognised in the statement of profit of loss and other comprehensive income for the year ended 31 March 2024.

Refer to note 7.1.5 for the maturity analysis on lease liabilities.

6.3.3 Subleasing income from right-of-use assets and gains/losses from sale and leaseback transactions

In the current financial year, the Group has earned R140 million (31 March 2023: R8 million) subleasing income and the Company has earned R5 million (31 March 2023: Rnil) subleasing income.

6.4 Interest-bearing debt

	Group		Company	
	31 March 2024 Rm	Restated[1] 31 March 2023 Rm	**31 March 2024 Rm**	Restated[1] 31 March 2023 Rm
Total interest-bearing debt	**14 217**	14 356	**14 217**	14 356
Non-current interest-bearing debt	**11 535**	11 999	**11 535**	11 999
Local debt	**11 535**	11 948	**11 535**	11 948
Foreign debt	**–**	51	**–**	51
Current portion of interest-bearing debt	**2 682**	2 357	**2 682**	2 357
Local debt	**2 682**	2 308	**2 682**	2 308
Bonds	**2 113**	500	**2 113**	500
Accrued interest	**169**	178	**169**	178
Other loans[2]	**400**	1 630	**400**	1 630
Foreign debt	**–**	49	**–**	49

[1] *R680 million of the non-current portion and R113 million of the current portion of interest-bearing debt was incorrectly classified as foreign debt as at 31 March 2023. The loan is granted and repaid in South African rand and therefore has been restated accordingly as local debt. This has no impact on the statement of financial position and only impacts the disclosure within the notes.*

[2] *Other loans relate to loans from local financial institutions. The decrease relates to repayments made in the current year.*