Notes to the financial statements continued

for the year ended 31 March 2024

7. Financial risk continued

7.3 Other financial assets and liabilities

Summary of material accounting policies

Investment in equity fund
In 2016, the private sector formed the SA SME Fund, the purpose of which is to stimulate investments in high-potential SMEs. This partnership of the fund and the accredited companies will also build a high-quality mentorship cohort to support said enterprises and entrepreneurs. Pursuant to the aforesaid initiative, various leading private sector entities committed to provide equity funding to the fund.

In the prior financial year, Telkom entered into an agreement with this fund in terms of which Telkom will provide equity funding through share subscriptions at a value of R10 million. Telkom does not have control over the fund as it only holds 0.72% interest in the fund. The investment is classified at fair value through profit or loss. The fair value of the investment is equivalent to its cost price.

Asset finance receivables and asset finance payables
The Group leases equipment to certain customers. In BCX, the business model for managing finance lease receivables is to collect contractual cash flows. Some finance lease receivables are also securitised to financial institutions. Where the derecognition criteria for the sale of the lease receivable to the financial institution in terms of IFRS 9 has been met, the lease receivable is derecognised. If the derecognition criteria are not met and the Group does not transfer all risks and rewards (i.e. credit risk), the lease receivable is not derecognised.

	Group		Company	
	31 March 2024 Rm	31 March 2023 Rm	31 March 2024 Rm	31 March 2023 Rm
Other financial assets				
Non-current other financial assets	173	182	89	89
Other financial assets at amortised cost	156	165	72	72
Asset finance receivables	73	93	–	–
SMME loans	72	72	72	72
Long-term loans and advances	11	–	–	–
Other financial assets at fair value through profit or loss	17	17	17	17
Investment in equity fund	10	10	10	10
Investment in first-party cell captive	7	7	7	7
Current other financial assets	63	93	48	77
Other financial assets at amortised cost	12	12	–	–
Short-term loans and advances	12	12	–	–
Other financial assets at fair value through profit or loss				
Derivative instruments used for hedging	51	81	48	77
Forward exchange contracts[1]	35	45	33	40
Firm commitments[1]	1	21	–	22
Interest rate swaps	15	15	15	15
Other financial liabilities				
Non-current other financial liabilities	(202)	(198)	–	–
Other financial liabilities at amortised cost				
Asset finance payables	(202)	(198)	–	–
Current other financial liabilities	(369)	(470)	(49)	(125)
Other financial liabilities at amortised cost	(293)	(328)	–	–
Asset finance payables[2]	(121)	(111)	–	–
Vendor financing	(172)	(217)	–	–
Other financial liabilities at fair value through profit or loss	(76)	(142)	(49)	(125)
Derivative instruments used for hedging	(76)	(131)	(49)	(125)
Forward exchange contracts[1]	(21)	(45)	(16)	(39)
Firm commitments[1]	(55)	(86)	(33)	(86)
Financial guarantees	–	(11)	–	–

[1] *The movement in the forward exchange contracts and firm commitments relates to the volatility of the forex market.*

[2] *The increase in asset finance payables in the current year is due to the increase in the number of high-value asset financing transactions that have been concluded.*

Notes to the financial statements continued

for the year ended 31 March 2024

7. Financial risk continued

7.3 Other financial assets and liabilities continued

SMME loans
The Group grants interest-free loans for Broad-Based Black Economic Empowerment (B-BBEE) scorecard purposes. Based on the Group's business model of managing the interest-free loans for small, medium and micro enterprises (SMMEs), subsequently interest-free loans are measured at amortised cost as they are held with the objective to collect contractual cash flows that are solely payments of the principal amount outstanding and/or interest on the outstanding amount.

As required by IFRS 9, interest-free loans are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition or issue. The SMME loans are not granted at fair value as they are interest-free.

On initial recognition, the difference between the fair value and the transaction price (loan amount) is recognised as a loss in the statement of profit or loss and other comprehensive income. Although the loans are granted for B-BBEE purposes, due to points being earned through financing the SMMEs, the loss is recognised as a finance cost.

In the current financial period, Absa Group Limited, on behalf of Telkom, entered into loan agreements with seven Small Medium Macro Enterprises (SMMEs)/borrowers. Absa Group Limited has been appointed by Telkom to act as its agent for the purposes of managing and administering the Enterprise and Supplier Development (ESD) funding loans.

The loan amounts for the seven borrowers range from a minimum of R2.5 million to a maximum of R10 million. The loans are all at a zero-interest rate and have different instalments and period terms.

Aligned with IFRS 9 principles, Telkom uses the general approach in calculating ECL on loans. The SMMEs' credit risk scores are not publicly available and there is currently no history available in which the credit risk can be assessed. Based on the nature and size of the SMMEs, their credit risk is regarded as significant, thus a lifetime ECL will be calculated. In the current financial year, an ECL of R6 million (31 March 2023: R27 million) was recognised on the loans.

Derivatives
Derivatives held for risk management purposes include hedges that either meet the hedge accounting requirements or economic hedges that do not meet the hedge accounting requirements. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Derivatives that do not meet the hedge accounting requirements:
The Group uses forward exchange contracts and interest rate swaps to economically hedge its foreign exchange and interest rate exposures. This relates to the "Other" category of forward exchange contracts as referred to in note 7.1.6. These derivative instruments are measured at fair value through profit or loss.

Derivatives that meet the hedge accounting requirements:
The Group uses forward exchange contracts to hedge its exposure to changes attributable to movements in the spot exchange rate of its firm commitments. These derivatives are designated as fair value hedges.

Fair value hedge
The foreign forward exchange contracts, designated as fair value hedges, are being used to hedge the exposure to changes attributable to movement in the spot exchange rate of firm commitments.

The Group implements fair value hedge accounting where the hedging relationship meets the requirements of IAS 39.

Hedge effectiveness is determined at inception of the hedge relationship and at every reporting period-end through the assessment of the hedged items and hedging instrument to determine whether there is still an economic relationship between the two.

The critical terms of the hedging instrument entered into exactly match the terms of the hedged item. As such, the economic relationship and hedge effectiveness are based on the qualitative factors and the use of a hypothetical derivative, where appropriate.

Notes to the financial statements continued

for the year ended 31 March 2024

7. Financial risk continued

7.3 Other financial assets and liabilities continue

Fair value hedge continued

Derivatives that meet the hedge accounting requirements:

	Group				
	Nominal amount of the hedging instrument Rm	Carrying amount of the hedging instrument		Line item in the statement of financial position where the hedging instrument is located	Changes in fair value used for calculating hedge effectiveness Rm
		Assets Rm	Liabilities Rm		
2024					
Foreign exchange risk fair value hedging relationship					
Forward exchange contracts	**2 748**	**35**	**(21)**	**Other financial assets and other financial liabilities**	**121**
2023					
Foreign exchange risk fair value hedging relationship					
Forward exchange contracts	4 240	45	(45)	Other financial assets and other financial liabilities	284

	Company				
	Nominal amount of the hedging instrument Rm	Carrying amount of the hedging instrument		Line item in the statement of financial position where the hedging instrument is located	Changes in fair value used for calculating hedge effectiveness Rm
		Assets Rm	Liabilities Rm		
2024					
Foreign exchange risk fair value hedging relationship					
Forward exchange contracts	**2 349**	**33**	**(16)**	**Other financial assets and other financial liabilities**	**121**
2023					
Foreign exchange risk fair value hedging relationship					
Forward exchange contracts	3 738	40	(39)	Other financial assets and other financial liabilities	284

A decrease in fair value of the forward exchange contracts, designated as fair value hedges, of R121 million (31 March 2023: R284 million) has been recognised in finance charges and fair value movements and offset with a similar gain on the hedged items (property, plant and equipment and inventory). The ineffective portion recognised in the current financial year was immaterial.