Notes to the financial statements continued

for the year ended 31 March 2021

11. Property, plant and equipment continued

	Group	
	31 March 2021	
Property, plant and equipment subject to operating leases	Freehold land and buildings Rm	Furniture and office equipment Rm
Adoption carrying amount	737	18
Additions	64	52
Depreciation	(39)	(20)
Transfers	–	7
Disposals	(1)	–
Closing carrying amount	**761**	**57**

12. 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 mast 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 2021, 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 years.

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 2021, 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 an indefinite 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. The Group elected to not apply the COVID-19 related rent concession practical expedient.

12.1 Right-of-use assets

Group	2021 Cost Rm	2021 Accumulated depreciation and write-offs Rm	2021 Carrying value Rm	2020 Cost Rm	2020 Accumulated depreciation and write-offs Rm	2020 Carrying value Rm
Vehicles	388	(273)	115	521	(163)	358
Property	1 264	(400)	864	1 123	(206)	917
Network equipment	4 722	(1 182)	3 540	3 797	(570)	3 227
	6 374	(1 855)	4 519	5 441	(939)	4 502
Company						
Vehicles	348	(256)	92	494	(155)	339
Property	977	(543)	434	1 308	(347)	961
Network equipment	7 045	(2 048)	4 997	5 967	(992)	4 975
	8 370	(2 847)	5 523	7 769	(1 494)	6 275

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

Group	Opening balance Rm	Cancelled leases Rm	New leases entered into Rm	Lease remeasurement Rm	Depreciation Rm	Closing balance Rm
2021						
Vehicles	358	(91)	22	(55)	(119)	115
Property	917	(3)	104	48	(202)	864
Network equipment	3 227	(22)	868	92	(626)	3 540
	4 502	(116)	994	85	(947)	4 519
2020						
Vehicles	522	–	8	(8)	(164)	358
Property	1 097	(10)	27	9	(206)	917
Network equipment	2 550	(198)	690	754	(569)	3 227
	4 169	(208)	725	755	(939)	4 502

Company	Opening balance Rm	Cancelled leases Rm	New leases entered into Rm	Lease remeasurement Rm	Depreciation Rm	Closing balance Rm
2021						
Vehicles	339	(91)	3	(52)	(107)	92
Property	961	(2)	36	(321)	(239)	434
Network equipment	4 975	(90)	1 096	85	(1 069)	4 997
	6 275	(183)	1 135	(288)	(1 416)	5 523
2020						
Vehicles	502	–	–	(8)	(155)	339
Property	1 643	(10)	9	(334)	(347)	961
Network equipment	4 725	(198)	687	753	(992)	4 975
	6 870	(208)	696	411	(1 494)	6 275

Notes to the financial statements continued

for the year ended 31 March 2021

12. Right-of-use assets and lease liabilities continued

12.2 Lease liabilities

Group

The closing balances for non-current lease liabilities can be reconciled as follows:	2021 Rm	2020 Rm
Vehicles	(37)	(193)
Property	(828)	(854)
Network equipment	(2 896)	(2 661)
	(3 761)	(3 708)

The closing balances for current lease liabilities can be reconciled as follows:		
Vehicles	(109)	(176)
Property	(229)	(223)
Network equipment	(873)	(668)
	(1 211)	(1 067)

Company

The closing balances for non-current lease liabilities can be reconciled as follows:	2021 Rm	2020 Rm
Vehicles	(27)	(185)
Property	(390)	(820)
Network equipment	(3 908)	(3 965)
	(4 325)	(4 970)

The closing balances for current lease liabilities can be reconciled as follows:		
Vehicles	(98)	(167)
Property	(306)	(373)
Network equipment	(1 432)	(1 164)
	(1 836)	(1 704)

The total cash outflow for leases in 2021 was R1 301 million (31 March 2020: R1 148 million) for the Group and R1 724 million (31 March 2020: R1 637 million) for the Company. Finance charges on lease liabilities of R445 million (31 March 2020: R368 million) for Group and R560 million (31 March 2020: R555 million) for Company have been recognised in the statement of profit or loss and other comprehensive income for the year ended 31 March 2021.

Refer to note 14.4 for the maturity analysis on lease liabilities.

Impact of COVID-19 on lease liabilities
The incremental borrowing rate applied to calculate the present value of the lease liability decreased due to a decline in the reference rate, which was slightly offset by an increase in the credit spread. This is applicable to leases entered into from 1 April 2020 onwards, as well as leases that were remeasured during FY2021 due to the alignment of the lease term to the rolling forecast period (five years) or modified due to changes in the lease contracts. This is included in the lease remeasurement.

The Group did not receive any rent concessions in relation to COVID-19.

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

In the current financial year, the Telkom Group has earned R9 million (31 March 2020: Rnil) subleasing income. Telkom Company does not earn any subleasing income.