14. Financial instruments and risk management

14.1 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, restricted cash 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 it's 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 years.

Notes to the financial statements continued

for the year ended 31 March 2022

14. Financial instruments and risk management continued

14.1 Financial risk management objectives and policies continued

The table below sets out the Group's classification of financial assets and liabilities.

		Group	
	Notes	At fair value through profit or loss Rm	At amortised cost Rm
2022			
Classes of financial instruments per statement of financial position			
Assets		**303**	**12 071**
Other investments[1]	15.2	**224**	**–**
Trade and other receivables[2]	19	**–**	**7 180**
Other financial assets	21.1	**69**	**103**
Forward exchange contracts		**16**	**–**
Firm commitments		**53**	**–**
Asset finance receivables		**–**	**103**
Finance lease receivables	16.1	**–**	**407**
Cash and cash equivalents	22.1	**–**	**3 239**
Investment in SA SME Fund	21.1	**10**	**–**
Restricted cash	22.2	**–**	**1 142**
Liabilities		**(274)**	**(22 658)**
Interest-bearing debt	26	**–**	**(11 932)**
Trade and other payables	30	**–**	**(10 339)**
Shareholders for dividend	34	**–**	**(28)**
Other financial liabilities	21.1	**(252)**	**–**
Forward exchange contracts		**(147)**	**–**
Firm commitments		**(36)**	**–**
Interest rate swaps		**(69)**	**–**
Asset finance payables	21.2	**–**	**(200)**
Financial guarantees	21.2	**(22)**	**–**
Vendor financing	21.2	**–**	**(159)**
2021			
Classes of financial instruments per statement of financial position			
Assets		256	12 311
Other investments[1]	15.2	168	–
Trade and other receivables[2]	19	–	6 729
Other financial assets	21.1	88	81
Firm commitments		88	–
Asset finance receivables		–	81
Finance lease receivables	16.1	–	498
Cash and cash equivalents	22.1	–	5 003
Liabilities		(422)	(22 698)
Interest-bearing debt	26	–	(10 866)
Trade and other payables	30	–	(11 493)
Shareholders for dividend	34	–	(31)
Other financial liabilities	21.1	(400)	–
Forward exchange contracts		(179)	–
Firm commitments		(19)	–
Interest rate swaps		(202)	–
Asset finance payables	21.2	–	(193)
Financial guarantees	21.2	(22)	–
Vendor financing	21.2	–	(114)
Credit facilities utilised	22.1	–	(1)

The table below sets out the Company's classification of financial assets and liabilities.

	Notes	Company At fair value through profit or loss Rm	Company At amortised cost Rm
2022			
Classes of financial instruments per statement of financial position			
Assets		**137**	**8 336**
Other investments	15.2	**59**	**–**
Trade and other receivables[2]	19	**–**	**6 430**
Other financial assets	21.1	**68**	**–**
Forward exchange contracts		**16**	**–**
Firm commitments		**52**	**–**
Finance lease receivables	16.1	**–**	**99**
Cash and cash equivalents	22.1	**–**	**665**
Investment in SA SME Fund	21.1	**10**	**–**
Restricted cash	22.2	**–**	**1 142**
Liabilities		**(242)**	**(24 336)**
Interest-bearing debt	26	**–**	**(11 932)**
Trade and other payables	30	**–**	**(12 376)**
Shareholders for dividend	34	**–**	**(28)**
Other financial liabilities	21.1	**(242)**	**–**
Forward exchange contracts		**(137)**	**–**
Firm commitments		**(36)**	**–**
Interest rate swaps		**(69)**	**–**
2021			
Classes of financial instruments per statement of financial position			
Assets		149	8 815
Other investments	15.2	61	–
Trade and other receivables[2]	19	–	6 610
Other financial assets	21.1	88	–
Firm commitments		88	–
Finance lease receivables	16.1	–	164
Cash and cash equivalents	22.1	–	2 041
Liabilities		(394)	(26 779)
Interest-bearing debt	26	–	(10 866)
Trade and other payables	30	–	(14 028)
Shareholders for dividend	34	–	(31)
Other financial liabilities	21.1	(394)	(1 854)
Forward exchange contracts		(173)	–
Firm commitments		(19)	–
Interest rate swaps		(202)	–
BCX treasury fund		–	(1 854)

[1] *Other investments are disclosed net of investments accounted for using the equity method of R5 million (31 March 2021: R7 million).*
[2] *Trade and other receivables are disclosed excluding prepayments of R358 million (31 March 2021: R280 million) for the Company and R617 million (31 March 2021: R498 million) for the Group.*

Notes to the financial statements continued

for the year ended 31 March 2022

14. Financial instruments and risk management continued

14.2 Fair value of financial instruments

14.2.1 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.

The carrying amount of financial instruments approximates fair value, with the exception of interest-bearing debt (at amortised cost) for the Company and Group which has a fair value of R12 007 million (31 March 2021: R11 078 million) and a carrying amount of R11 932 million (31 March 2021: R10 866 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.

Type of financial instrument – Group	Fair value at 31 March 2022 Rm	Valuation technique	Significant inputs
Derivative assets	69	Discounted cash flows	Yield curves Market interest rates
Derivative liabilities	(252)		
Financial guarantees	(22)	Discounted cash flows	Market foreign exchange rates
Investment in FutureMakers entities	165	Discounted cash flows	Cash flow forecasts and market-related discount rates
Investment in SA SME Fund	10	Discounted cash flows	Cash flow forecasts and market-related discount rates
Interest-bearing debt	(12 007)	Discounted cash flows and quoted bond prices	Market interest rates Market foreign exchange rates

14.2.2 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
2022					
Assets measured at fair value					
Derivative assets					
Forward exchange contracts	21.1	**16**	**–**	**16**	**–**
Firm commitments	21.1	**53**	**–**	**53**	**–**
Investment made by FutureMakers	15.2	**165**	**–**	**–**	**165**
Investment in SA SME Fund	21.1	**10**	**–**	**–**	**10**
Liabilities measured at fair value					
Derivative liabilities					
Forward exchange contracts	21.2	**(147)**	**–**	**(147)**	**–**
Firm commitments	21.2	**(36)**	**–**	**(36)**	**–**
Interest rate swaps	21.2	**(69)**	**–**	**(69)**	**–**
Financial guarantees	21.2	**(22)**	**–**	**–**	**(22)**
Liabilities measured at amortised cost					
Interest-bearing debt[1]	26	**(12 007)**	**–**	**(12 007)**	**–**
2021					
Assets measured at fair value					
Derivative assets					
Firm commitments	21.1	88	–	88	–
Investment made by FutureMakers	20	107	–	–	107
Liabilities measured at fair value					
Derivative liabilities					
Forward exchange contracts	21.2	(179)	–	(179)	–
Firm commitments	21.2	(19)	–	(19)	–
Interest rate swaps	21.2	(202)	–	(202)	–
Financial guarantees	21.2	(22)	–	–	(22)
Liabilities measured at amortised cost					
Interest-bearing debt[1]	26	(11 078)	–	(11 078)	–

Notes to the financial statements continued

for the year ended 31 March 2022

14. Financial instruments and risk management continued

14.2 Fair value of financial instruments continued

14.2.2 Fair value hierarchy continued

	Notes	Company Total Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm
2022					
Assets measured at fair value					
Derivative assets					
Forward exchange contracts	21.1	**16**	**–**	**16**	**–**
Firm commitments	21.1	**52**	**–**	**52**	**–**
Investment in SA SME Fund	21.1	**10**	**–**	**–**	**10**
Liabilities measured at fair value					
Derivative liabilities					
Forward exchange contracts	21.2	**(137)**	**–**	**(137)**	**–**
Firm commitments	21.2	**(36)**	**–**	**(36)**	**–**
Interest rate swaps	21.2	**(69)**	**–**	**(69)**	**–**
Liabilities measured at amortised cost					
Interest-bearing debt[1]	26	**(12 007)**	**–**	**(12 007)**	**–**
2021					
Assets measured at fair value					
Derivative assets					
Firm commitments	21.1	88	–	88	–
Liabilities measured at fair value					
Derivative liabilities					
Forward exchange contracts	21.2	(173)	–	(173)	–
Firm commitments	21.2	(19)	–	(19)	–
Interest rate swaps	21.2	(202)	–	(202)	–
Liabilities measured at amortised cost					
Interest-bearing debt[1]	26	(11 078)	–	(11 078)	–

[1] *The carrying amount of interest-bearing debt is R11 932 million (31 March 2021: R10 866 million) for Group and Company. Interest-bearing debt is measured at amortised cost, however is included in the fair value hierarchy table above to achieve the IFRS 13 disclosure requirements relating to the disclosure of the fair value.*

14.3 Credit risk

14.3.1 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.

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.

Telkom Group and Company have the following types of assets that are subject to the expected credit loss model:

- Trade receivables from the Group's ordinary activities
- Contract assets
- Finance lease receivables
- Other receivables
- Loans to subsidiaries
- Asset finance receivables
- Cash and cash equivalents
- Restricted cash

	Group – Carrying amount		Company – Carrying amount	
The maximum exposure to credit risk for financial assets at the reporting date by type of instrument and counterparty was:	**2022 Rm**	2021 Rm	**2022 Rm**	2021 Rm
Trade receivables (refer to note 19)	**5 210**	5 077	**4 880**	4 947
Telkom SA	**7 282**	7 198	**6 518**	6 699
Business and residential	**3 113**	3 060	**3 113**	3 060
Global, corporate and wholesale	**3 500**	3 579	**2 771**	3 135
Government	**564**	964	**551**	950
Other customers	**105**	(405)	**83**	(446)
South African subsidiaries	**224**	197	**–**	–
Impairment of trade receivables (refer to note 19)	**(2 296)**	(2 318)	**(1 638)**	(1 752)
Contract assets (refer to note 19)	**2 055**	1 747	**1 976**	1 635
Gross contract assets	**2 551**	2 157	**2 472**	2 045
Impairment of contract assets (refer to note 19)	**(496)**	(410)	**(496)**	(410)
Subtotal for trade receivables and contract assets	**7 265**	6 824	**6 856**	6 582
Other receivables	**1 970**	1 652	**1 550**	1 663
Derivatives	**69**	88	**68**	88
Other investments	**165**	107	**–**	–
Finance lease receivables	**407**	498	**99**	164
Net cash and cash equivalents	**3 239**	5 002	**665**	2 041
Restricted cash	**1 142**	–	**1 142**	–
	14 257	14 171	**10 380**	10 538

14.3.2 Impairment of financial assets

The approach and methodology applied by Telkom when calculating expected credit losses under IFRS 9 are shown in the sub-sections below. Refer to note 19 for the reconciliation of the expected credit loss balances recognised.

14.3.2.1 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 historical 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 contract asset debtors, Telkom uses loss rates from the trade receivables ageing analysis. These are not 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 contract asset debtors.

Application of forward-looking information

The Group calculated ECL on trade receivables, finance lease receivables, contract assets, cash and cash equivalents, other receivables and loans, based on the IFRS 9 principles. Refer to notes 2.4.6.1, 2.4.6.2, 2.4.6.3, 2.4.6.4 and 2.4.6.5 for the accounting policy and approach adopted. In the current year, the Group adjusted the ECL rates for forward-looking information based on professional judgement around the future projections of macro-economics and other market-available information. The Group used macro-economics, such as GDP projections, to calculate forward-looking values. Based on the above, the Group did not adjust the ECL rates for forward-looking information as the impact was determined to be immaterial.

Post write-off recoveries

Telkom Company receivable books data 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.

Notes to the financial statements continued

for the year ended 31 March 2022

14. Financial instruments and risk management continued

14.3 Credit risk continued

14.3.2 Impairment of financial assets continued

14.3.2.1 Trade receivables and contract assets continued

	Group – Carrying amount 2022			Company – Carrying amount 2022		
The ageing of trade receivables at the reporting date was[1]:	**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	**4 006**	**171**	**4.3**	**3 486**	**86**	**2.5**
21 to 60 days past due	**585**	**134**	**22.9**	**536**	**108**	**20.1**
61 to 90 days past due	**275**	**82**	**29.8**	**257**	**72**	**28.0**
91 to 120 days past due	**231**	**110**	**47.6**	**168**	**91**	**54.1**
121 to 150 days past due	**103**	**93**	**90.3**	**97**	**85**	**87.9**
151 to 240 days past due	**564**	**323**	**57.3**	**432**	**209**	**48.4**
241 to 330 days past due	**223**	**191**	**85.7**	**216**	**170**	**78.8**
331 to 361 days past due	**162**	**132**	**81.5**	**167**	**123**	**73.7**
361+ days past due	**1 357**	**1 060**	**78.1**	**1 159**	**694**	**59.9**
	7 506	**2 296**	**30.6**	**6 518**	**1 638**	**25.1**

	Group – Carrying amount Restated 2021[1]			Company – Carrying amount Restated 2021[1]		
The ageing of trade receivables at the reporting date was[1]:	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	3 853	210	5.5	3 479	168	4.8
21 to 60 days past due	769	187	24.3	750	144	19.2
61 to 90 days past due	311	167	53.7	285	126	44.2
91 to 120 days past due	405	181	44.7	365	167	45.8
121 to 150 days past due	282	263	93.3	219	210	95.9
151 to 240 days past due	405	194	47.9	433	177	40.9
241 to 330 days past due	278	216	77.7	209	119	56.9
331 to 361 days past due	165	95	57.6	147	60	40.8
361+ days past due	927	805	86.8	812	581	71.6
	7 395	**2 318**	**31.3**	**6 699**	**1 752**	**26.2**

[1] *In the current financial year, the ageing buckets have been further disaggregated to provide more granular disclosure of the categories. When updating the prior year, it was identified that there was an error in the loss rates calculated and disclosed in the prior financial year. The error related only to the loss rates disclosed and did not impact the amount of the actual ECL calculated in the prior year. The prior year ageing has therefore been adjusted for these loss rates and thus restated.*

The movement in the allowance for impairment in respect of trade receivables during the year is disclosed in note 19.

Included in the allowance for impairment for Telkom Company, are individually impaired receivables with a balance of R166 million (31 March 2021: R365 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.

Telkom does not age the contract asset as none of the amounts related to the contract asset is past due. Telkom uses one rate across all the contract assets and that rate is the average of the contract assets over the average remaining life of the contract asset.

14.3.2.2 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 12-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.

Notes to the financial statements continued

for the year ended 31 March 2022

14. Financial instruments and risk management continued

14.4 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 Committee. In terms of the borrowing requirements, the Group ensures that sufficient facilities exist to meet its immediate obligations. Short-term liquidity gaps may be funded through undrawn facilities and commercial paper bills.

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

		Group					
	Notes	Carrying amount Rm	Contractual cash flows Rm	0 – 12 months Rm	1 – 2 years Rm	2 – 5 years Rm	>5 years Rm
2022							
Non-derivative financial liabilities							
Interest-bearing debt	26	**11 932**	**13 890**	**4 330**	**2 335**	**6 482**	**743**
Lease liabilities	12.2	**5 374**	**6 850**	**1 366**	**1 277**	**2 805**	**1 402**
Trade and other payables	30	**10 339**	**10 339**	**10 339**	**–**	**–**	**–**
Shareholders for dividend	34	**28**	**28**	**28**	**–**	**–**	**–**
Asset finance payables	21	**200**	**200**	**200**	**–**	**–**	**–**
Financial guarantees	21	**22**	**22**	**22**	**–**	**–**	**–**
Vendor financing	21	**159**	**159**	**159**	**–**	**–**	**–**
Derivative financial liabilities							
Interest rate swaps	21	**69**	**69**	**69**	**–**	**–**	**–**
Firm commitments	21	**36**	**36**	**36**	**–**	**–**	**–**
Forward exchange contracts	21	**147**	**147**	**147**	**–**	**–**	**–**
		28 306	**31 740**	**16 696**	**3 612**	**9 287**	**2 145**
2021							
Non-derivative financial liabilities							
Interest-bearing debt	26	10 866	13 437	1 903	1 984	6 767	2 783
Credit facilities utilised	22.1	1	1	1	–	–	–
Lease liabilities	20	4 972	6 890	1 272	1 124	2 701	1 793
Trade and other payables	12.2	11 493	11 493	11 493	–	–	–
Shareholders for dividend	34	31	31	31	–	–	–
Asset finance payables	21	193	193	193	–	–	–
Financial guarantees	21	22	22	22	–	–	–
Vendor financing	21	114	114	114	–	–	–
Derivative financial liabilities							
Interest rate swaps	21	202	202	202	–	–	–
Firm commitments	21	19	19	19	–	–	–
Forward exchange contracts	21	179	179	179	–	–	–
		28 092	32 581	15 429	3 108	9 468	4 576

	Notes	Company					
		Carrying amount Rm	Contractual cash flows Rm	0 - 12 months Rm	1 - 2 years Rm	2 - 5 years Rm	>5 years Rm
2022							
Non-derivative financial liabilities							
Interest-bearing debt	26	**11 932**	**13 887**	**4 327**	**2 335**	**6 482**	**743**
Lease liabilities	12.2	**6 103**	**7 418**	**1 956**	**1 897**	**2 545**	**1 020**
Trade and other payables	30	**12 376**	**12 376**	**12 376**	**–**	**–**	**–**
Shareholders for dividend	34	**28**	**28**	**28**	**–**	**–**	**–**
Derivative financial liabilities							
Interest rate swaps	21	**69**	**69**	**69**	**–**	**–**	**–**
Firm commitments	21	**36**	**36**	**36**	**–**	**–**	**–**
Forward exchange contracts	21	**137**	**137**	**137**	**–**	**–**	**–**
		30 681	**33 951**	**18 929**	**4 232**	**9 027**	**1 763**
2021							
Non-derivative financial liabilities							
Interest-bearing debt	26	10 866	13 434	1 900	1 984	6 767	2 783
Lease liabilities	12.2	6 161	8 056	1 909	1 782	3 156	1 209
Trade and other payables	30	14 028	14 028	14 028	–	–	–
Shareholders for dividend	34	31	31	31	–	–	–
Derivative financial liabilities							
Interest rate swaps	21	202	202	202	–	–	–
Firm commitments	21	19	19	19	–	–	–
Forward exchange contracts	21	173	173	173	–	–	–
		31 480	35 943	18 262	3 766	9 923	3 992

Supplier financing arrangements

The Group participates in supply chain financing (SCF) arrangements. The Group continues to pay its suppliers based on the agreed payment terms and provides no guarantees granted to the participating funders. The arrangement does not have an impact on the Group's trade payables, net debts and cash flows. Invoices subject to supplier finance are classified as trade payables based on management judgement applied. Cash paid in relation to these suppliers is recognised as part of cash paid to suppliers and employees in operating activities in the cash flow statement. Refer to note 2.4.15 for the supplier financing significant accounting judgements, estimates and assumptions.

The supplier's participation is entirely at the supplier's discretion. The arrangement allows suppliers to trade the invoice and receive the funding earlier than the invoice due date. During the current reporting period, suppliers have traded invoices amounting to R3 797 million through SCF, of which R814 million is due after 31 March 2022.

Notes to the financial statements continued

for the year ended 31 March 2022

14. Financial instruments and risk management continued

14.5 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.

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 43% (2021: 48%) 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 30% to 70% fixed, but adjusted to market conditions. In a scenario of low interest rates, a higher ratio may be established.

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
2022				
Interest rate swaps outstanding				
Pay fixed and receive floating	**1.85 years**	**2 869**	**1.85 years**	**2 869**
2021				
Interest rate swaps outstanding				
Pay fixed and receive floating	2.8 years	2 959	2.8 years	2 959

The floating rate is based on the three-month JIBAR, and is settled quarterly in arrears. The interest rate swaps are used to manage 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 21 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	
Purchased	**Foreign contract value m**	**Contract value Rm**	**Foreign contract value m**	**Contract value Rm**
2022				
Currency				
USD	**207**	**3 157**	**184**	**2 825**
Euro	**14**	**245**	**14**	**242**
Chinese Yuan	**356**	**831**	**356**	**831**
		4 233		**3 898**
2021				
Currency				
USD	173	2 680	154	2 398
Euro	15	282	14	263
Chinese Yuan	979	2 266	979	2 266
		5 228		4 927

	Group		Company	
Sell	**Foreign contract value m**	**Contract value Rm**	**Foreign contract value m**	**Contract value Rm**
2022				
Currency				
USD	**–**	**2**	**–**	**–**
Chinese Yuan	**64**	**148**	**64**	**148**
		150		**148**
2021				
Currency				
USD	2	33	–	–
Euro	1	5	–	5
Other	1	16	–	–
		54		5

Notes to the financial statements continued

for the year ended 31 March 2022

14. Financial instruments and risk management continued

14.5 Market risk continued

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.

	Group					Company			
	Euro Rm	United States Dollar Rm	Chinese Yuan Rm	British Pound Sterling Rm	Other Rm	Euro Rm	United States Dollar Rm	Chinese Yuan Rm	Other Rm
2022									
Net foreign currency monetary assets/ (liabilities)									
Functional currency of Company operation									
South African rand	**(26)**	**(1 039)**	**(258)**	**1**	**(2)**	**(27)**	**(1 072)**	**(258)**	**(3)**
2021									
Net foreign currency monetary assets/ (liabilities)									
Functional currency of Company operation									
South African rand	(26)	(1 359)	(1 334)	–	(1)	(26)	(1 360)	(1 334)	(1)

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 profit for the year ended 31 March 2022 would decrease/increase by R72 million (31 March 2021: decrease/increase by R100 million) for Group and R55 million (31 March 2021: decrease/increase by R99 million) for Company.

The following table illustrates the sensitivity to a 100 basis points change in the interest rates (1%) 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
2022				
Assets				
Other financial assets	19	(19)	–	–
Cash and cash equivalents	17	(17)	–	–
Finance lease receivables	2	(2)	–	–
Liabilities				
Other financial liabilities	53	(53)	55	(55)
Interest rate swaps	44	(44)	44	(44)
Forward exchange contracts	11	(11)	11	(11)
Asset finance payable	(2)	2	–	–
	72	(72)	55	(55)
2021				
Assets				
Other financial assets	3	(3)	–	–
Forward exchange contracts	3	(3)	–	–
Liabilities				
Other financial liabilities	97	(97)	99	(99)
Interest rate swaps	83	(83)	83	(83)
Forward exchange contracts	16	(16)	16	(16)
Asset finance payable	(2)	2	–	–
	100	(100)	99	(99)

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 2022 would increase/decrease by R127 million for Group (31 March 2021: increase/decrease by R264 million) and R130 million for Company (31 March 2021: increase/decrease by R261 million).

Notes to the financial statements continued

for the year ended 31 March 2022

14. Financial instruments and risk management continued

14.5 Market risk continued

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

	Group		Company	
Classes of financial instruments per statement of financial position	**+ 10% movement (Depreciation) Rm**	**- 10% movement (Appreciation) Rm**	**+ 10% movement (Depreciation) Rm**	**- 10% movement (Appreciation) Rm**
2022				
Assets				
Other financial assets	**(216)**	**216**	**(216)**	**216**
Firm commitments	**(216)**	**216**	**(216)**	**216**
Liabilities				
Other financial liabilities	**357**	**(357)**	**358**	**(358)**
Forward exchange contracts	**357**	**(357)**	**358**	**(358)**
Interest-bearing debt	**(12)**	**12**	**(12)**	**12**
Financial guarantees	**(2)**	**2**	**–**	**–**
	127	**(127)**	**130**	**(130)**
2021				
Assets				
Other financial assets	36	(36)	36	(36)
Firm commitments	36	(36)	36	(36)
Liabilities				
Other financial liabilities	(285)	285	(284)	284
Firm commitments	185	(185)	185	(185)
Forward exchange contracts	(470)	470	(469)	469
Interest-bearing debt	(13)	13	(13)	13
Financial guarantees	(2)	2	–	–
	(264)	264	(261)	261

14.6 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 R167 million (31 March 2021: R107 million). A 10% increase (31 March 2021: 10% increase) in the local equity portfolios at the reporting date would have increased profit or loss by R17 million (31 March 2021: R11 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.

14.7 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.

Net debt is defined as interest-bearing debt and credit facilities utilised, less restricted cash and cash and cash equivalents. EBITDA is defined as earnings before investment income, finance cost, tax, depreciation, amortisation, write-offs, impairments and losses and includes significant financing revenue recognised under IFRS 15 (Revenue from Contracts with Customers).

	Group		Company	
The net debt (excluding lease liabilities) to EBITDA at reporting date was as follows:	**31 March 2022 Rm**	31 March 2021 Rm	**31 March 2022 Rm**	31 March 2021 Rm
Non-current portion of interest-bearing debt	**8 221**	10 173	**8 221**	10 173
Current portion of interest-bearing debt	**3 711**	693	**3 711**	693
Credit facilities utilised	**–**	1	**–**	–
Less: Cash and cash equivalents	**(3 239)**	(5 003)	**(665)**	(2 041)
Less: Restricted cash	**(1 142)**	–	**(1 142)**	–
Net debt	**7 551**	5 864	**10 125**	8 825

15. Investments

15.1 Investment in subsidiaries and loans to subsidiaries

15.1.1 Investment in subsidiaries

	Company	
	31 March 2022 Rm	31 March 2021 Rm
	8 376	8 418
Yellow Pages (Pty) Ltd (formerly known as TDS Directory Operations/Trudon)		
100% shareholding at cost	**326**	326
Swiftnet (Pty) Ltd (Gyro Masts and Towers)		
100% shareholding at cost	**1 239**	1 239
Business Connexion Group Ltd (BCX)		
100% shareholding at cost	**6 579**	6 579
Gyro Properties (Pty) Ltd		
100% shareholding at cost (R100)	**129**	129
Gyro Solutions (Pty) Ltd		
100% shareholding at cost (R100)	**5**	5
Investment in the FutureMakers Fund	**98**	140

15.1.2 Loans to subsidiaries

	Carrying value	
	2022 Rm	2021 Rm
Loan to Swiftnet	**500**	–

The Telkom Board of Directors approved a R500 million loan from Telkom to Swiftnet on 31 March 2022. The loan was provided to Swiftnet to finance capital expenditure requirements and/or discharge indebtedness incurred for the purposes of financing such capital expenditure requirements. The loan is payable over 5.5 years and accrues interest at a rate of three-month JIBAR plus a margin of 1.65%. The payments against the loan are on a voluntary basis by the borrower.