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.

Notes to the financial statements continued

for the year ended 31 March 2022

15. Investments continued

15.2 Other investments

15.2.1 Non-current other investments

	Group		Company	
	31 March 2022 Rm	31 March 2021 Rm	31 March 2022 Rm	31 March 2021 Rm
Unlisted investment	170	115	–	–
FutureMakers Fund	165	107	–	–
Investment	175	117	–	–
Devaluation/impairment	(10)	(10)	–	–
Investment in associates	5	8	–	–

15.2.2 Current other investments

	Group		Company	
	31 March 2022 Rm	31 March 2021 Rm	31 March 2022 Rm	31 March 2021 Rm
Current other investments	59	61	59	61
Investment in third party cell captive	3	–	3	–
Investment in insurance cell captive	56	61	56	61
Initial investment	5	5	5	5
Insurance service result	51	56	51	56
Insurance service result				
At 1 April	56	41	56	41
Net insurance revenue	(2)	15	(2)	15
Premiums earned	126	105	126	105
Claims paid	(84)	(78)	(84)	(78)
Investment income	3	4	3	4
Gross commission paid	(3)	–	(3)	–
Other expenses	(15)	(11)	(15)	(11)
Preference dividend paid	(22)	–	(22)	–
Taxation paid	(7)	(5)	(7)	(5)
At 31 March	54	56	54	56

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 have 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 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 and Joint Ventures). The year-end of the associate, 31 December, is different to that of the Company and the impact is not material.

Investment in insurance cell captive

Telkom has entered into a cell captive arrangement with Mutual and Federal and Guard Risk. Both Mutual and Federal and Guard Risk are licensed insurance companies. Mutual and Federal underwrites the Telkom device insurance and Guard Risk underwrites the Telkom life insurance.

Both cells are ring-fenced insurance businesses and Telkom's participation is restricted to the results of the insurance businesses. The cell captive arrangements effectively represent investments in a separate class of shares in the cell captive insurer (Guard Risk and Mutual and Federal). The customer is responsible for paying the premium.

Insurance risk
The device insurance allows Telkom's customers to insure their devices against theft, accidental loss and accidental physical damage. The life insurance allows customers to ensure lives with the main product being the death benefit cover. Both the Mutual and Federal third party cell captive and the Guard Risk third party cell captive meet the IFRS 4 (Insurance Contracts) definition of an insurance contract. Accordingly, the cell captive arrangement is accounted for in terms of IFRS 4.

Telkom is exposed to the risk that should there be insufficient capital available to honour the claims made by the policyholders in the cell captive arrangement it has to recapitalise the cell captive. Therefore, Telkom has accepted a sizeable insurance risk from the third parties (policyholders) in a controlled manner by investing in businesses that are liable to compensate the third party in the event a specified risk occurs.

The following are events/risks that may lead to insufficient capital being available to honour the customer claims:

- Loss rate risk – risk that the actual experienced loss/claims are higher than that assumed and cannot be covered by collected insurance premiums. For device insurance, this talks to claims due to loss of devices or accidental physical damage or theft. For life insurance, this relates to loss of insured life/assumed mortality rate
- Business volume risk – risk that the insurance business may not attract and sell sufficient volumes to cover the fixed costs of running the business
- Lapse risk – risk that customers will terminate their contracts prior to contractual maturity

Telkom, as the cell owner of both cell captives, is obliged to ensure that the cell always maintains financially sound requirements (solvency and liquidity). Where the cell's solvency and liquidity requirements are adversely affected, Telkom is required to inject capital into the cell. Due to the insignificance of the risk exposure at this stage on both cell captives, Telkom has opted not to reinsure its insurance risk on both cell captives.

Telkom develops an annual business plan whose performance is reviewed on a monthly basis including the assessment of financial statements of the respective cell to monitor the financial performance and position. The risks are also mitigated through the cell captive arrangement with Mutual and Federal and Guard Risk, respectively, as both companies have vast experience in the insurance and financial management of insurance contracts. The claims ratio is closely monitored to ensure that they have considered all the possible risk, and mitigation actions are implemented.

Concentrations of insurance risk
In determining the value of the insurance liability/asset position, assumptions are made regarding the loss rates. The insurance investment is more sensitive to the loss/claim rates.

The assumptions are informed by extensive industry level insights and experience and are assessed annually. The assumptions are aligned to the Standards of Actual Practice. The uncertainty of these rates may result in the actual experienced claims being different from the assumptions, however, due to the close monitoring of the claims behaviour and vast experience and understanding of the insurance business, the difference between the assumptions and actuals are both quantitatively and qualitatively immaterial. Additionally, the uncertainties are resolved within a short period of time (less than 12 months). Management is of the view that at this stage risk exposure is not material enough to warrant reinsuring the risk. The risk arising from the sensitivity of the assumptions are mitigated through the governance and close monitoring of the cell performance and position by the Telkom Insurance division's management and the respective cell captive boards.

Measurement
Aligned with IFRS 4 requirements, on initial recognition, Telkom recognised its contribution to the cell captives as an investment in insurance cell captives in the statement of financial position.

Subsequently, the results of the insurance business are determined in accordance with the shareholders' agreement. In accordance with IFRS 4, the underwriting activities are determined on an annual basis whereby the earned premiums and incurred costs of claims and related expenses are recognised as an insurance service result in the statement of profit or loss and other comprehensive income.

The results of the cell captive arrangements are presented on a net basis in the statement of financial position as either a net receivable from, or net payable to, the Group as an investment in insurance cell captive. The value of the investment in the insurance cell captives is determined based on the net asset value of the insurance cell captives at the reporting date. Movements during the year, which are included in the net returns of the investment in insurance cell captives, comprise the following:

- Premiums earned;
- Claims recovered;
- Investment and other income earned from the cell captive assets;
- Claims paid; and
- Other operational and marketing expenses

Telkom does not incur or recognise any commission from this existing insurance contract.

15.3 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 (Impairment of Assets), 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 13.