Notes to the annual financial statements continued

for the year ended 31 March 2025

2. Accounting framework and significant judgements continued

2.3 Significant accounting judgements, estimates and assumptions

The preparation of annual financial statements requires the use of judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the annual financial statements, and the reported amounts of revenue and expenses during the reporting periods. Although these estimates and assumptions are based on management's best knowledge of current events and actions that the Group may undertake in the future, actual results may ultimately differ from those judgements, estimates and assumptions.

The Group has performed an evaluation of the possible impact that the U.S. tariffs would have across the Group and determined that they do not have a material impact.

The presentation of the results of operations, financial position and cash flows in the annual financial statements of the Group is dependent upon, and sensitive to, the accounting policies, assumptions and estimates that are used as a basis for the preparation of these annual financial statements. Management has made certain judgements in the process of applying the Group's accounting policies. These, together with the key judgements, estimates and assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date are as follows:

Significant accounting judgements, estimates and assumptions	Note reference
Significant accounting judgement in the settlement of the Telkom Retirement Fund (TRF)	Note 10.3
Significant judgement in measuring the significant financing component in the Google Equiano transaction	Note 3.2
Recognition and measurement of revenue	Note 3.2
Taxation	Note 8.1
Estimation of useful lives and residual values for property, plant and equipment	Note 5.1
Impairments of property, plant and equipment	Note 5.1
IFRS 16 (Leases)	Note 6.3
Estimation of useful lives and residual values for intangible assets	Note 5.2
Impairments of intangible assets	Note 5.2
CGU and goodwill impairment assessment	Note 5.3
Investment property	Note 5.4
Impairment of financial assets (expected credit losses)	Note 7.1.4
Cash flow treatment of asset finance transactions	Note 7.3
Deferred taxation asset	Note 8.2
Inventories	Note 4.2
Provisions	Note 6.5
Employee benefits	Note 10.1
Supplier finance arrangements	Note 4.5
Contingent liabilities	Note 6.8

2.4 Summary of material accounting policies

2.4.1 Basis of consolidation

In preparing these annual financial statements, subsidiaries are consolidated from the date the Group gains control until the date on which control ceases. The Group's share of results of equity-accounted investments is included in the consolidated annual financial statements from the date that significant influence or joint control commences, until the date that significant influence or joint control ceases. All intercompany transactions are eliminated and reversed, where relevant.

2.4.2 Subsidiaries

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee, and has the ability to affect those returns through its power over the investee. The Group consolidates the financial statements of subsidiaries from the date that control of the subsidiary commences until the date that control ceases.

2.4.3 Transactions with non-controlling interests

Non-controlling interests are initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition, plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a negative balance.

2.4.4 Associates

An associate is an entity over which the Group has significant influence. The Group has significant influence over an associate when it has the power to participate in the financial and operating policy decisions of the investee. The Group recognises its interests in associates by applying the equity method.

2.4.5 Investments in subsidiaries and associates

Investments in subsidiaries and associates are carried at cost at Company level and adjusted for any impairment losses.

2.4.6 Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at acquisition date) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree and non-controlling interest.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Any transaction costs that the Group incurs in connection with the business combination such as legal fees, due diligence fees and other professional and consultation fees are expensed as incurred. Business combinations in which all of the combining entities or businesses are ultimately controlled by the same party/parties both before and after the business combinations (and where control is not transitory) are referred to as common control business combinations. The carrying amounts of the acquired entities are the consolidated carrying amounts as reflected in the consolidated financial statements from the selling entity.

The excess of the cost of the transaction over the acquirer's proportionate share of the net asset value acquired in common control transactions is allocated to equity. This is in accordance with the predecessor value method. The Group has adopted an accounting policy of recycling the common control reserve through retained earnings.

The common control reserve is recycled fully when the business that it is related to is sold internally or externally. In the case where the business is sold back piecemeal, the full reserve will be recycled to retained earnings when the last part of the business is sold internally or externally. In a common control transaction, the seller recognises the difference between the transaction price and the net assets in the statement of profit or loss and other comprehensive income within the “other income” (profit) and “other expenses” (loss) line items.

Notes to the annual financial statements continued

for the year ended 31 March 2025

2. Accounting framework and significant judgements continued

2.4 Summary of material accounting policies continued

2.4.7 Sale of business

The loss of control of a subsidiary usually occurs when the parent sells or otherwise transfers its controlling interest in a single transaction or as a result of multiple transactions. The loss of control represents a significant economic event that requires the parent to stop consolidating the subsidiary and to recognise any gain or loss.

On losing controlling interest in a subsidiary, the Group applies the following accounting principles:

- The Group derecognises the subsidiary's assets (including goodwill) and liabilities, and any non-controlling interest in the subsidiary.
- The Group recognises, at fair value, any interest retained in the former subsidiary, if any. The resulting difference between the net assets and consideration is recognised in profit or loss as a gain or loss on disposal.
- Amounts previously recognised in other comprehensive income related to the subsidiary are either reclassified to profit or loss or directly transferred to retained earnings, depending on the requirement of the applicable IFRS standard(s).

When the change of ownership does not result in a change of control, both the carrying amounts of the controlling and non-controlling interests are adjusted to reflect their revised interests in the subsidiary. Any difference between the adjustment against the non-controlling interest and the fair value of the consideration received is directly recognised in equity.

2.4.8 Foreign currencies

Functional and presentation currency
The consolidated annual financial statements are presented in South African rand, which is the functional and presentation currency of the parent company.

Foreign currency transactions and balances
Foreign currency transactions are translated into the functional currency of the respective Group entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items denominated in foreign currency at year-end exchange rates are recognised in profit or loss.

Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

Foreign operations
For the purpose of presenting consolidated annual financial statements, assets and liabilities have been translated to rand at the closing rate on the reporting date. Income and expenses have been translated to rand at the average rate over the reporting period. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been translated to rand at the closing rate.

Exchange differences are charged or credited to other comprehensive income and recognised in the foreign currency translation reserve in equity. On disposal of a foreign operation, the related cumulative translation differences recognised in equity are reclassified to profit or loss and are recognised as part of the gain or loss on disposal.

The functional currencies of entities within the Group have remained unchanged during the reporting period.

2.5 Significant changes in the current financial year

2.5.1 Settlement of the Telkom Retirement Fund (TRF or the fund)

During the current financial year, the TRF met the IAS 19 (Employee Benefits) criteria for a full settlement of the defined benefit plan, following an amendment to the TRF rules, which was approved by the Financial Sector Conduct Authority (FSCA) with effect from 1 July 2024.

The amendment changed the nature of the liabilities relating to the fund from a defined benefit to a defined contribution plan (as no further company obligation remains) according to IAS 19, with effect from 1 July 2024. Refer to note 10.3 for further details.

2.5.2 Internal organisational restructuring

In the 2023 financial year, Telkom had entered into formal consultation processes with the relevant stakeholders in terms of section 189 of the Labour Relations Act to restructure the Group's operations to ensure its sustainability. Phase one of the restructuring commenced in February 2023 and impacted all business units and subsidiaries.

BCX continues to face persistent operational and financial challenges, necessitating further business changes and phase two of the section 189 process. In line with the consultation process with the unions, Telkom offered voluntary severance packages and voluntary early retirement packages to employees in BCX and Gyro. Refer to note 3.4.4 for further details.

2.5.3 Disposal of Swiftnet

The disposal of Swiftnet was completed effective 31 January 2025. Refer to notes 12.2 and 12.3 for further details.