

Notes to consolidated financial statements continued

for the year ended 30 June 2017

	2017 R'000	2016 R'000
26 NOTES TO THE STATEMENT OF CASH FLOW (continued)		
26.2 Movements in working capital		
Movement in inventories	270 070	(112 709)
Movement in foreign currency translation	(69 621)	6 191
Movement in trade and other receivables	(454 375)	(8 141)
Movement in trade and other payables	399 573	518 588
Payments against short-term provisions	(33 659)	(23 914)
	111 988	380 015
26.3 Finance costs		
Finance costs per income statement	(19 662)	(38 576)
Unwinding of discount on environmental obligations	7 659	2 497
	(12 003)	(36 079)
26.4 Taxation paid		
Unpaid at beginning of year	(39 348)	(27 428)
Charged to the income statement	(583 420)	(176 376)
Movement in deferred taxation (refer note 14)	(2 709)	(8 646)
Unpaid at end of year	72 532	39 348
	(552 945)	(173 102)
26.5 Dividends paid to shareholders of the holding company		
Unpaid at beginning of year	(2 623)	(2 451)
Declared during the year (refer note 25)	(1 535 677)	(698 035)
Dividends attributable to treasury shares (refer note 25)	400 400	182 000
Unpaid at end of year included in other payables	3 112	2 623
	(1 134 788)	(515 863)

27 FINANCIAL RISK MANAGEMENT

The group is exposed to various financial risks due to the nature and diversity of its activities and the use of various financial instruments. These risks include:

- credit risk
- liquidity risk
- market risk

Details of the group's exposure to each of the above risks and its objectives, policies and processes for measuring and managing these risks are included specifically in this note and more generally throughout the consolidated financial statements together with information regarding management of capital.

The boards of the individual companies in the group (boards) have overall responsibility for the establishment and oversight of the risk management framework. These boards have delegated these responsibilities to the group's Executive Committee, which is responsible for the development and monitoring of risk management within the group. The risk management policies are established to identify and analyse the risks faced by the group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the activities of the group.

The roles and responsibilities of the committees include:

- approval of all counterparties;
- approval of new instruments;
- approval of the group's foreign exchange transaction policy;
- approval of the investment policy;
- approval of treasury policy; and
- approval of long-term funding requirements.

The internal auditors undertake regular and ad hoc reviews of risk management, controls and procedures, the results of which are monitored by the Assore Audit and Risk Committee.

27 FINANCIAL RISK MANAGEMENT (continued)**27.1 Credit risk**

Credit risk arises from possible defaults on payments by customers or, where letters of credit have been issued, by bank counterparties. The group minimises credit risk by the careful evaluation of the ongoing creditworthiness of customers and bank counterparties before transactions are concluded. Certain customers which have a well-established credit history are allowed to transact on open account. The group maintains credit insurance on certain accounts in South Africa and all accounts established in the United States.

Overdue amounts are individually assessed and if it is evident that an amount will not be recovered, it is impaired and legal action is instituted to recover the amounts involved.

Credit exposure and concentrations of credit risk

The carrying value of the financial assets represents the maximum credit exposure at the reporting date and the following table indicates various concentrations of credit risk for all financial assets held and recognised in the statement of financial position.

	2017 R'000	2016 R'000
Cash resources	5 626 778	3 184 925
Restricted cash	—	479 522
Trade receivables	825 334	356 117
– local	128 343	75 453
– foreign	696 991	280 664
Other receivables	278 998	62 349
	6 731 110	4 082 913

	2017 Carrying amount of receivables not impaired R'000	2016 Carrying amount of receivables not impaired R'000
Trade receivables	825 334	356 117
Not past due, not impaired	790 788	355 305
Past due, not impaired as considered recoverable	34 546	812
Other receivables		
Not past due, not impaired (refer note 7)	278 998	62 349
	1 104 332	418 466

27.2 Liquidity risk

The Executive Committee manages the liquidity structure of the group's assets, liabilities and commitments so as to ensure that cash flows are sufficiently balanced within the group as a whole. Updated cash flow information and projections of future cash flows are received by the Executive Committee from the group companies on a regular basis depending on the type of funding required. Measures have been introduced to ensure that the cash flow information received is accurate and complete.

Surplus funds are deposited with large South African banks, either on call or on term deposits, taking into account the Executive Committee's views on interest rates.

Undrawn credit facilities

In terms of the Memorandum of Incorporation (MoI) of the holding company, its borrowing powers are unlimited.

The holding company has facilities in place to issue letters of credit and bank guarantees where required and to ensure liquidity. Subsidiary company Minerais U.S. LLC has a banking facility in place, secured by a holding company guarantee, to finance its inventory and receivables, which bears interest at a rate linked to LIBOR. At year-end, the facility was US\$97,5 million (2016: US\$100 million), of which US\$44 500 000 (2016: US\$67 000 000) was utilised.

Notes to consolidated financial statements continued

for the year ended 30 June 2017

27 FINANCIAL RISK MANAGEMENT (continued)

27.2 Liquidity risk (continued)

Exposure to liquidity risk

The following table indicates the anticipated timing of cash flows for the group's financial assets and liabilities, including guarantees at year-end as determined by contractual maturity date, including interest receipts and payment

	Contracted maturity date					
	Carrying amount R'000	Total expected cash flows R'000	Less than 4 months R'000	Between 4 and 12 months R'000	Between 1 and 5 years R'000	More than 5 years R'000
2017						
Financial assets						
Listed and unlisted investments [#]	253 474	253 474	—	—	—	253 474
Investment in foreign listed associate [#]	108 729	108 729	—	—	—	108 729
Trade and other receivables	1 104 332	1 104 332	1 104 332	—	—	—
Cash resources	5 626 778	5 626 778	5 626 778	—	—	—
	7 093 313	7 093 313	6 731 110	—	—	362 203
Financial liabilities						
Trade and other payables	1 500 487	1 500 487	1 500 487	—	—	—
Overdrafts	579 719	579 719	579 719	—	—	—
Guarantees	307 362	307 362	307 362	—	—	—
	2 387 568	2 387 568	2 387 568	—	—	—
2016						
Financial assets						
Listed and unlisted investments [#]	224 675	224 675	—	—	—	224 675
Investment in foreign listed associate	124 848	124 848	—	—	—	124 848
Trade and other receivables	418 466	418 466	418 466	—	—	—
Restricted cash	479 522	479 522	479 522	—	—	—
Cash resources	3 184 925	3 184 925	3 184 925	—	—	—
	4 432 436	4 432 436	4 082 913	—	—	349 523
Financial liabilities						
Trade and other payables	822 996	822 996	822 996	—	—	—
Overdrafts	995 774	995 774	995 774	—	—	—
Guarantees	210 762	210 762	210 762	—	—	—
	2 029 532	2 029 532	2 029 532	—	—	—

[#] These investments do not have contractual maturities.

27.3 Market risk

Market risk is defined as the risk that movements in market factors, in particular US dollar commodity prices and the US dollar/SA rand exchange rate, will affect the group's revenue and operational costs as well as the value of its holdings of financial instruments. The objective of the group's market risk management policy is to manage and control market risk exposures to minimise the impact of adverse market movements with respect to revenue protection and to optimise the funding of the business's operations.

The group companies are responsible for the preparation and presentation of market risk information as it affects the relevant entity. Information is submitted to the Executive Committee where it is monitored and further analysed to be used in the decision-making process. The information submitted includes information on currency, interest rates and commodities and is used by the committee to determine the market risk strategy going forward. In addition, key market risk information is reported to members of the Executive Committee on a weekly basis, and forecasts against budget are prepared for the entire group on a monthly basis.

27 FINANCIAL RISK MANAGEMENT (continued)**27.3 Market risk (continued)****27.3.1 Interest risk note**

Interest rate risk arises due to adverse movements in domestic and foreign interest rates. The group is primarily exposed to downward interest rate movements on floating investments purchased and to upward movements on overdrafts and other banking facilities. There is no fair value interest rate risk, as there are no fixed rate financial instruments.

The board determines the interest rate risk strategy based on economic expectations and recommendations received from members of the Executive Committee and senior executives of its offshore interests. Interest rates are monitored on an ongoing basis and the policy is to maintain short-term cash surpluses adequate to meet the group's ongoing cash flow requirements at floating rates of interest.

At the reporting date, the interest rate profile of the group's interest-bearing financial instruments was as follows:

	2017 R'000	2016 R'000
Variable rate instruments		
Liabilities		
Overdrafts (refer note 19)	579 719	995 774
Assets		
Cash resources (refer note 9)	2 127 249	3 184 925

Cash flow sensitivity analysis for variable rate instruments

An increase of 50 basis points in interest rates applicable to variable rate instruments at the reporting date would have increased profit after taxation by R5 571 100 (2016: R7 881 000). This assumes that all other variables remain constant. There is no impact on the group's equity. Net effect on profit or loss is equal but opposite for a 50 basis points decrease in interest rates on the variable instruments listed above.

Fair value sensitivity analysis for fixed rate instruments

The group does not account for any fixed rate financial assets and liabilities at fair value through profit and loss, therefore a change in interest rates at the reporting date would not affect profit or loss.

27.3.2 Commodity price and currency risk

Commodity price risk arises from the risk of an adverse effect on current or future earnings resulting from fluctuations in metal and mineral prices. The group also has transactional foreign exchange exposures, which arise from sales or purchases by the group in currencies other than the group's functional currency. These markets are predominantly priced in US dollar and to a lesser extent in euros which exposes the group to the risk that fluctuations in the SA rand exchange rates may have a positive or negative impact on current or future earnings.

The group manages its commodity price risk, to which it is exposed through its investment in Assmang, by concluding supply contracts with certain customers for periods of up to three months. Contracts with other customers contain retrospective pricing arrangements which may impact the group either positively or negatively. With respect to its exposure to foreign currency fluctuations, the group constantly reviews the extent to which its foreign currency exposures are covered by forward exchange contracts, taking into account changes in operational forecasts and market conditions and the group's hedging policy (refer "Forward exchange contracts and other commitments" on page 32).

The group's exposure to currency risk at year-end was as follows:

	2017 R'000	2016 R'000
Foreign receivables included in trade receivables		
– US dollar denominated	696 991	280 664
Foreign overdraft (refer note 19)		
– US dollar denominated	579 719	995 774
Total exposure at year-end	1 276 710	1 276 438

Foreign currency sensitivity analysis

A 5% strengthening of the rand against the US dollar would have decreased profit or loss for the year by R45 962 000 (2016: R45 952 000) as a result of revaluation of foreign denominated balances. A 5% weakening of the rand against the abovementioned currencies would have had an equal but opposite effect on profit and loss, on the basis that all other variables remained constant.

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27 FINANCIAL RISK MANAGEMENT (continued)

27.3 Market risk (continued)

Forward exchange contracts and other commitments

The group undertakes economic hedging of receivables denominated in US dollar at times when the rand/US dollar exchange rate appears volatile. The level of exposure on these limited hedging activities did not exceed US\$100 million (2016: US\$100 million) at any stage during the year.

A foreign subsidiary had forward commitments with regard to its inventory of ores, alloys and metals, which for accounting purposes are regarded as executory contracts and are therefore not included in the statement of financial position, but can be summarised as follows:

	2017		2016	
	Foreign currency amount US\$'000	Presentation currency notional amount R'000	Foreign currency amount US\$'000	Presentation currency notional amount R'000
Purchase contracts				
US dollar	35 900	475 958	13 100	194 696
Sales contracts				
US dollar	58 900	780 889	33 800	502 346

Equity price risk

The group's listed and unlisted investments are susceptible to market price risk arising from uncertainties about future value of the investment. The group manages the equity price risk through monitoring developments in the mining and metal industries. The executive directors of the board review and approve all equity investment decisions.

At the reporting date, the exposure to listed investments at fair value was R229,0 million (2016: R180,0 million). A decrease of 1% on the relevant market index would have an impact of approximately R2,3 million (2016: R1,8 million) on other comprehensive income attributable to the group, depending on whether or not the decline is significant or prolonged. An increase of 1% in the value of the listed investments would only impact other comprehensive income, but would not have an effect on profit or loss unless the shares are sold or fall below cost.

28 CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The categorisation of each class of financial asset and liability in terms of IAS 39 Financial Instruments: Recognition and Measurement is included below:

	Available- for-sale investments R'000	Loans and receivables R'000	Liabilities at amortised cost R'000	Total carrying value R'000
2017				
Financial assets				
Listed and unlisted investments	253 474	—	—	253 474
Trade and other receivables	—	1 104 332	—	1 104 332
Cash resources	—	5 626 778	—	5 626 778
	253 474	6 731 110	—	6 984 584
Financial liabilities				
Trade and other payables	—	—	1 500 487	1 500 487
Overdrafts	—	—	579 719	579 719
	—	—	2 080 206	2 080 206