

Notes to company financial statements continued

for the year ended 30 June 2017

17 FINANCIAL RISK MANAGEMENT

The company 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 company'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 company's financial statements together with information regarding management of capital.

The board of directors has overall responsibility for the establishment and oversight of the company's risk management framework. The board has delegated its responsibility to the Executive Committee, which is responsible for the development and monitoring of risk management policies within the company. The committee meets on an ad hoc basis and regularly reports to the board on its activities. The company's risk management policies are established to identify and analyse the risks faced by the company, 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 company's activities.

The roles and responsibilities of the committee 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 company also has an internal audit function, which undertakes regular and *ad hoc* reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Committee.

17.1 Credit risk

Credit exposure and concentration of credit risk

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

	2017 R'000	2016 R'000
Loans to group companies (refer note 1)	4 518 291	4 629 538
Other receivables – local	631 873	498 597
Restricted cash (refer note 6)	—	479 522
Cash resources (refer note 7)	1 782 683	702 214

17 FINANCIAL RISK MANAGEMENT (continued)**17.2 Liquidity risk**

The Executive Committee manages the liquidity structure of the company's assets, liabilities and commitments so as to ensure that cash flows are sufficiently balanced within the company as a whole.

Surplus funds are deposited in liquid assets (ie negotiable certificates of deposits and call deposits).

The borrowing capacity of the company is determined by its Memorandum of Incorporation in terms of which there is no restriction imposed on the borrowing powers.

Exposure to liquidity risk

The following are the cash flows of the group's financial assets, liabilities and guarantees at year-end as determined by contractual maturity date including interest receipts and payments but excluding the impact of any netting agreements with the third parties concerned.

	Contractual maturity date					
	Carrying amount R'000	Total 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						
Investment in group companies [#]	1 506 425	1 506 425	—	—	—	1 506 425
Available-for-sale investments [#]	229 501	229 501	—	—	—	229 501
Investment in foreign listed associate [#]	121 953	121 953	—	—	—	121 953
Loans to group companies ^{**}	4 518 291	4 518 291*	81 140	—	—	4 437 151
Other receivables	631 873	631 873	631 873	—	—	—
Cash resources	1 782 683	1 782 683	1 782 683	—	—	—
	8 790 726	8 790 726	2 495 696	—	—	6 295 030
Financial liabilities						
Loans from group companies	1 082 027	1 082 027	—	1 082 027	—	—
Other payables	35 343	35 343	35 343	—	—	—
Guarantees	1 273 818	1 273 818	1 273 818	—	—	—
	2 391 188	2 391 188	1 309 161	1 082 027	—	—
2016						
Financial assets						
Investment in group companies	470 592	470 592	—	—	—	470 592
Available-for-sale investments	180 209	180 209	—	—	—	180 209
Investment in foreign listed associate	121 953	121 953	—	—	—	121 953
Loans to group companies	4 629 538	4 629 538*	79 503	—	—	4 550 035
Other receivables	498 597	498 597	498 597	—	—	—
Restricted cash	479 522	479 522	479 522	—	—	—
Cash resources	702 214	702 214	702 214	—	—	—
	7 082 625	7 082 625	1 759 836	—	—	5 322 789
Financial liabilities						
Loans from group companies	1 079 305	1 079 305	—	1 079 305	—	—
Other payables	31 931	31 931	31 931	—	—	—
Guarantees	1 486 230	1 486 230	1 486 230	—	—	—
	2 597 466	2 597 466	1 518 161	1 079 305	—	—

[#] Investment in, and loans to, group companies and associates and available-for-sale investments do not have contractual maturity dates, but have been presented in the "more than five years" column as the company does not intend disposing of these assets within the next five years.

^{*} Contracted cash flows for loans to group companies are determined by the ability of the company to declare dividends and therefore no projection is made of the cash flows, except for those based on dividends already declared.

Notes to company financial statements continued

for the year ended 30 June 2017

17 FINANCIAL RISK MANAGEMENT (continued)

17.3 Market risk

Market risk is defined as the risk that movements in market risk factors will affect the company's revenue and operational costs as well as the value of its holdings of financial instruments. The objective of the company'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 operations.

Market risk information is prepared and 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 and interest rates and is used by the committee to determine the market risk strategy going forward. In addition, key market risk information is reported to the Executive Committee on a weekly basis and forecasts against budget are prepared on a monthly basis.

Interest rate risk

Interest rate risk arises due to adverse movements in domestic and foreign interest rates. The company is primarily exposed to downward interest rate movements on floating investments purchased. There is no other exposure to fair value interest rate risk as all fixed rate financial instruments are measured at amortised cost.

The board determines the interest rate risk strategy based on economic expectations and recommendations received from the Executive Committee. Interest rates are monitored on a regular basis and the policy is to maintain short-term cash surpluses at floating rates of interest.

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

	2017 R'000	2016 R'000
Variable rate instruments		
Assets		
Loan accounts receivable (refer note 1)	4 518 291	4 629 538
Cash resources (refer note 7)	256 731	702 214

Cash flow sensitivity analysis for variable rate instruments

An increase of 50 basis points in interest rates at the reporting date would have increased profit after taxation by R9,2 million (2016: R25,7 million). This assumes that all other variables remain constant. There is no impact on the company's equity. Net effect on profit or loss after taxation is equal but opposite for a 50 basis point decrease on the financial instruments listed above.

Fair value sensitivity analysis for fixed rate instruments

The company 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.

Equity price risk

The company's listed and unlisted investments are susceptible to market price risk arising from uncertainties about future value of the investment. The company 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% in the market value of the investments would have an impact of approximately R2,3 million (2016: R1,8 million) on profit or loss, or other comprehensive income depending on whether or not the valuation of the security concerned is stated at below original cost. An increase of 1% in the value of the listed investments would only impact other comprehensive income, and would not have an effect on profit or loss.

17 FINANCIAL RISK MANAGEMENT (continued)**17.4 Classification of financial assets and liabilities**

The categorisation of each class of financial asset and liability, including their fair values, are included below:

	Available- for-sale investments R'000	Loans and receivables R'000	Liabilities at amortised cost R'000	Other assets and liabilities R'000	Total carrying value R'000
2017					
Financial assets					
Investment in group companies	—	—		1 506 425	1 506 425
Available-for-sale investments	229 501	—		—	229 501
Loans to group companies	—	4 518 291		—	4 518 291
Other receivables	—	631 873		—	631 873
Cash resources	—	1 782 683		—	1 782 683
	229 501	6 932 847		1 506 425	8 668 773
Financial liabilities					
Loans from group companies		—	1 082 027		1 082 027
Other payables		—	35 343		35 343
		—	1 117 370		1 117 370
2016					
Financial assets					
Investment in group companies	—	—		470 592	470 592
Available-for-sale investments	180 209	—		—	180 209
Loans to group companies	—	4 629 538		—	4 629 538
Other receivables	—	498 597		—	498 597
Restricted cash	—	479 522		—	479 522
Cash resources	—	702 214		—	702 214
	180 209	6 309 871		470 592	6 960 672
Financial liabilities					
Loans from group companies			1 079 305	—	1 079 305
Other payables			31 931	—	31 931
			1 111 236	—	1 111 236