21. Financial instruments

Principles of risk management

The group has exposure to the following risks from its use of financial instruments:
* Credit risk;
* Liquidity risk; and
* Market risk

This note presents information about the group's exposure to each of the above risks, the group's objectives, policies and processes for measuring and managing risk, and the group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The board of directors has overall responsibility for the establishment and oversight of the group's risk management framework. The board has established a group Audit and Risk Committee, which is responsible for monitoring the group's risk management policies. The Committee reports directly to the board of directors on its activities.

The group's 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 group's activities. The group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The group Audit and Risk Committee oversees how management monitors compliance with the group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the group. The group Audit and Risk Committee is assisted in the oversight role at operations level by internal audit. Internal audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the result of which are reported to the group Audit and Risk Committee.

The overall objective of the Venture's treasury department is to effectively manage credit risk, liquidity risk and market risks in accordance with the group's strategy. Other responsibilities of the Venture's treasury department include management of the group's cash resources, approval of counter-parties and relevant transaction limits and the monitoring of all significant treasury activities undertaken by the group.

The Venture's treasury department prepares monthly treasury reports which monitor all significant treasury activities undertaken by the Venture. The report also benchmarks significant treasury activities and monitors key banking risks to ensure continued effectiveness.

The group's significant financial instruments comprise loans and receivables, cash and cash equivalents and financial liabilities measured at amortised cost. The main purpose of these financial instruments is to finance the group's acquisitions and ongoing operations.

21. Financial instruments *(continued)*

21.1 Credit risk

Credit risk is the risk of financial loss to the group if a customer or counter-party to a financial instrument fails to meet its contractual obligation.

Exposure to credit risk arises as a result of transactions in the group's ordinary course of business and is applicable to all financial assets. Counter-parties are assessed both prior to, during and after conclusion of transactions to ensure exposure to credit risk is limited to an acceptable level.

Cash and cash equivalents

The group limits its exposure to credit risk by investing only in liquid securities and only with approved banks and financial institutions. The group's cash balances are in the form of short-term deposits in both local and foreign currency.

Trade and other receivables

The group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the group's customer base, including the default risk of the industry and country in which the customers operate, has less of an influence on credit risk. Management have considered recoverability of trade and other receivables and no significant impairment losses are expected. There are no impairment losses in the current year.

The group sells the majority of its ferrochrome to a broad range of international customers in terms of the Venture agreement.

The marketing agent, Glencore, accepts 60% of the risk related to non-payment of credit sales of ferrochrome and 100% of the risk of non-payment of credit sales of chrome ore. In general, Glencore acts as a sales and marketing agent, on-selling purchases from the group to a wide variety of customers. These sales are governed by various sales, marketing and distribution agreements. As these agreements have been in place for a number of years and the group has not been exposed to significant unrecoverable amounts, the group does not believe that these arrangements expose it to unacceptable credit risks.

Where concentrations of credit risk exist, management closely monitors the receivable and ensures appropriate controls are in place to ensure recovery. The group does not have netting arrangements with any debtors.

Investments

The company has a loan receivable from Merafe Chrome, a wholly-owned subsidiary. The recoverability of the loan is assessed periodically.

***21. Financial instruments** (continued)*

21.1 Credit risk *(continued)*

	Group		Company	
	2018	2017	**2018**	2017
	R'000	R'000	**R'000**	R'000
Exposure to credit risk				
The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was: (refer note 21.4)				
Loans to subsidiaries	**-**	-	**1 759 108**	1 532 928
Trade and other receivables	**817 598**	790 911	**5 447**	158
Long term- receivable	**12 995**	13 864	**-**	-
Cash and cash equivalents	**248 797**	671 655	**4 888**	18 539
	1 079 390	1 476 430	**1 769 443**	1 551 625
Ageing of trade receivables:				
Not past due	**805 453**	747 262	**5 447**	158
Past due 31 days to 60 but not impaired	**5 836**	15 059	**-**	-
Past due 61 to 90 days but not impaired	**6 309**	15 357	**-**	-
Past due 90 days but not impaired	**-**	13 233	**-**	-
	817 598	790 911	**5 447**	158

21.2 Liquidity risk

Liquidity risk is the risk that the group will not be able to meet its financial obligations on time. The group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the group's reputation.

The Venture's treasury department is responsible for management of liquidity risk, including funding, settlements, related processes and policies. The group manages its liquidity risk on a concentrated basis, utilising various sources of finance to maintain flexibility while ensuring access to cost-effective funds when required. The operational, tax, capital and regulatory requirements and obligations of the group are considered in the management of liquidity risk. In addition, management utilises both short and long term cash flow forecasts and other consolidated financial information to manage liquidity risk.

The group uses activity-based costing to cost its products, which assists it in monitoring cash flow requirements and optimising its cash return on investments. Typically the group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations, this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

21. Financial instruments *(continued)*

21.2 Liquidity risk *(continued)*

In addition, the group maintained the following facilities at 31 December 2018:

The Company

* ABSA: R1m credit card facilities. Interest is payable at ABSA's prime lending rate. At year end the prime lending rate was 10.25%; and
* ABSA: R0.3m guarantee facility.

Merafe Ferrochrome

* ABSA R200m revolving credit facility. Interest is charged at three months JIBAR plus 255 basis points. As at 31 December 2018 the 3 months JIBAR was at 7.8%.

The Venture

* US$120m (ABSA, Standard Bank, Investec): US$30m committed, US$90m uncommitted foreign currency overdraft account. Interest charged at an effective interest rate of 2.88%
* Standard Bank debtors factoring facility: US$100m uncommitted. Interest is charged at US$ LIBOR plus a margin of 1.6%.

The following guarantee facilities (Merafe's portion) are in place:

	ABSA R'000	**Nedbank R'000**	**FNB R'000**	**Standard R'000**	**Total R'000**
31 December 2018					
Facility available and utilised	**13 244**	**21 593**	**66 084**	**15 278**	**116 199**
Eskom	**11 514**	**-**	**41 980**	**-**	**53 494**
DMR	**82**	**21 593**	**24 104**	**7 906**	**53 685**
Customs and excise	**314**	**-**	**-**	**-**	**314**
Town councils and water boards	**1 334**	**-**	**-**	**7 372**	**8 707**
Percentage utilised	**100%**	**100%**	**100%**	**100%**	**100%**

	ABSA R'000	**Nedbank R'000**	**FNB R'000**	**Standard R'000**	**Total R'000**
31 December 2017					
Facility available and utilised	13 474	21 593	64 253	7 906	107 226
Eskom	11 514	-	41 980	-	53 494
DMR	312	21 593	22 273	7 906	52 084
Customs and excise	314	-	-	-	314
Town councils and water boards	1 334	-	-	-	1 334
Percentage utilised	100%	100%	100%	100%	100%

Note: All of the above guarantees are in the name of Glencore and relate to the Venture.

21. **Financial instruments** *(continued)*

21.2 Liquidity risk *(continued)*

Company

	ABSA R'000	FNB R'000	Total R'000
31 December 2018			
Facility available and utilised	**1 310**	**20**	**1 330**
DMR	**1 310**	**20**	**1 330**
Percentage utilised	**100%**	**100%**	**100%**

The following are the contractual maturities of financial liabilities including estimated interest payments and excluding the impact of netting arrangements.

Group 2018	**Year ended 31 December 2019 R'000**	**Year ended 31 December 2020 R'000**	**Year ended 31 December 2021 R'000**	**Year ended 31 December 2022 onwards R'000**	**Total R'000**
Non derivative					
Finance lease liabilities	**(2 613)**	**(2 642)**	**(2 573)**	**(11 397)**	**(19 225)**
Trade payables	**(303 054)**	**-**	**-**	**-**	**(303 054)**
Total	**(305 667)**	**(2 642)**	**(2 573)**	**(11 397)**	**(322 279)**

Group 2017	**Year ended 31 December 2017 R'000**	**Year ended 31 December 2018 R'000**	**Year ended 2019 R'000**	**Year ended 2020 and onwards R'000**	**Total R'000**
Non derivative					
Finance lease liabilities	(2 585)	(2 613)	(2 643)	(13 957)	(21 798)
Trade payables	(323 416)	-	-	-	(323 416)
Total	(326 001)	(2 613)	(2 643)	(13 957)	(345 214)

Company 2018
Trade and other payables mature during the year ending 31 December 2019.

Company 2017
Trade and other payables mature during the year ending 31 December 2018.

21. Financial instruments *(continued)*

21.3 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and ferrochrome prices, will affect the group's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising return.

Currency risk

Foreign currency
In the normal course of business, the group enters into transactions denominated in foreign currencies (primarily US$). As a result, the group was subject to transaction and translation exposure from flutuations in foreign currency exchange rates.

	31 December 2018 US$ '000	31 December 2017 US$ '000
Exposure to currency risk		
The group's exposure to foreign currency risk is as follows:		
Trade receivables	**56 300**	62 538
Trade receivables sold	**(20 507)**	(14 666)
CFC account	**82**	2 733
Net exposure	**35 875**	50 605

	Average rate		**Reporting date spot rate**	
	2018	2017	**2018**	2017
The following exchange rates were applied during the year:				
Rand: United States Dollar	**13.25**	13.3	**14.38**	12.4

Foreign currency sensitivity analysis

A 10 percent (strengthening)/weakening of the Rand against the US$ at 31 December 2018 would have (decreased)/increased equity and profit before tax by R29m. A 10 percent (strengthening)/weakening of the rand at 31 December 2017 against the US$ would have (decreased)/increased equity and profit before taxation by R63m. This analysis assumes that all other variables, in particular interest rates, remain constant. This sensitivity does not represent the statement of comprehensive income impact that would be expected from a movement in foreign currency exchange rates over the course of a period of time.

21. Financial instruments *(continued)*

21.3 Market Risk *(continued)*

Interest rate risk
Profile
At the reporting date, the interest rate profile of the group's interest-bearing financial instruments were:

	2018		2017	
	Average interest rate %	**Carrying amount R'000**	Average interest rate %	Carrying amount R'000
Variable rate instruments				
Interest bearing borrowings				
– Finance leases – plant and equipment	**13.3**	**(11 112)**	11.8	(12 138)
Cash and cash equivalents				
– local currency	**7.1***	**281 995**	5.0*	637 797
– foreign currency	**3.9**	**82**	0.5	33 858
		270 925		(659 517)

* *Cash balances in local currency receive interest as follows:*
a The Venture: prime less 5.76%
b The Company and Merafe Ferrochrome
Call deposits: daily call deposits rates. At year end the call deposit rate was 6.6%
Current account balances
– favourable: 1%
– unfavourable: prime (at year end prime was 10.25%)
** Money market: The average rate was 7.6% (at year end was 7.8%).*

Sensitivity Analysis for interest rate risk

Cash and cash equivalents
A decrease of 50 basis points in interest rates will decrease equity and profit or loss by R1.1m (2017: R1.1m). An increase of 50 basis points would have the equal but opposite effect. This analysis assumes all other variables remain constant.

Interest bearing borrowings
A decrease of 50 basis points on the interest rates on the interest-bearing borrowings will increase equity and profit or loss by R1.2m (2017: R1.0m). An increase of 50 basis points would have the equal but opposite effect. This analysis assumes all other variables remain constant.

21. Financial instruments *(continued)*

	Group		Company	
	2018	2017	**2018**	2017
	R'000	R'000	**R'000**	R'000
21.4 **Financial instruments carrying amounts**				
Loans and receivables	**1 079 390**	1 511 605	**1 769 460**	1 551 625
Inter company loan	**-**	-	**1 759 108**	1 532 928
Trade and other receivables	**817 598**	826 086	**5 464**	158
Long term receivable	**12 995**	13 864	**-**	-
Cash and cash equivalents	**248 797**	671 655	**4 888**	18 539
Financial assets/liabilities at fair value – embedded derivative	**(48 767)**	(35 175)	-	-
Financial liabilities measured at amortised cost	**(315 348)**	(335 554)	**(471 367)**	(228 229)
Loans and borrowings – long-term	**(9 879)**	(11 094)	**-**	-
Loans and borrowings – short-term	**(1 233)**	(1 044)	**-**	-
Bank overdraft	**(1 182)**	-	**-**	-
Trade and other payables	**(303 054)**	(323 416)	**(471 367)**	(228 229)

The carrying amount of financial assets and financial liabilities reflected in the statements of financial position approximate their fair values.

22. Capital management

The board's policy is to maintain a strong capital base in order to maintain investor, debt providers and the market confidence in the business.

The strong capital base should ensure that any organic or acquisitive growth in the business is sustainable and provides a cushion for the cyclical nature of the resources business.

The board has actively pursued a policy of debt reduction and its objective is to maintain its net gearing level to a maximum of 25% versus total assets. This ratio is calculated taking into account interest bearing debt excluding cash balances divided by total assets. At 31 December 2018 year end, the gearing level was 0.2% (31 December 2017: 0.2%).

As the required gearing level has been achieved, the board will focus on balancing the requirement to pay dividends, while at the same time ensuring that there is sufficient capital in the business to see the company through the continued global economic uncertainty, to fund working capital, to fund capital expenditure requirements and to fund other growth opportunities in the business.

When analysing growth opportunities, the board seeks to obtain a minimum internal rate of return of 20%.

Neither the company nor any of its subsidiaries are subject to externally imposed capital requirements.