Notes to the Consolidated And Separate Annual Financial Statements

27. Financial instruments and risk management

Principles of risk management

The Group is exposed 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 has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established an Audit and Risk Committee, which is responsible for monitoring the Group's risk management policies. The Committee reports directly to the Board 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 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 Audit and Risk Committee is assisted in the oversight role at operations level by internal audit. Internal audit undertakes both regular and adhoc reviews of risk management controls and procedures, the result of which are reported to the 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 as the Group's activities expose it to a variety of risks. 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 manages the treasury department through a Central Treasury function.

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

The Group's significant financial instruments comprise of financial assets and financial liabilities measured at amortised cost. The main purpose of these financial instruments is to finance the Group's acquisitions and ongoing operations.

27.1 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 obligations. The Group minimises credit risk by ensuring that the exposure is spread over a number of counterparties.

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. There is no material concentration of credit risk in cash and cash equivalents, trade and other receivables and loans.

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.

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	Group		Company	
	2022 R '000	2021 R '000	2022 R '000	2021 R '000

27. Financial instruments and risk management (continued)

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 noted in note 1.17 and 11 and no significant ECLs are expected. Trade receivables are presented in the statement of financial position net of any provision for impairment. No trade receivables are past due.

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 International AG (GIAG), 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, GIAG 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.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

Exposure to credit risk				
Loan to subsidiary at amortised cost	-	-	965,184	985,157
Other long-term receivable at amortised cost	14,229	-	14,229	-
Trade and other receivables at amortised cost and fair value through profit and loss	866,438	1,554,241	9,879	11,149
Long-term receivables at fair value	38,663	13,444	-	-
Cash and cash equivalents at amortised cost	1,268,599	972,129	402	79
	2,187,929	**2,539,814**	**989,694**	**996,385**

27.2 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. 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 of the Venture. 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

27. Financial instruments and risk management (continued)

In addition, the Group maintained the following facilities at 31 December 2022:

The Company

- ABSA Bank Limited (ABSA): R1m credit card facilities. Interest is payable at ABSA's prime lending rate plus 6.5%. At the reporting date the prime lending rate was 10.5%; and
- ABSA: R0.3m guarantee facility.
- ABSA: R5m daylight facility.

Merafe Ferrochrome

- ABSA: R20.2m guarantee facility.
- ABSA: R5m daylight facility.
- ABSA facility: this is a R300m (2021: R300m) revolving credit facility and interest on the facility is calculated at 3 months. JIBAR plus a margin of 240 basis points. At 31 December 2022, the facility was unutilised with a zero balance. A commitment fee is payable on the unused portion of the facility which is payable quarterly in arrears. The commitment fee decreased from 0.50% per annum to 0.40% per annum on 5 September 2022. Interest is charged at three month JIBAR plus 220 basis points. As at 31 December 2022 the 3 months JIBAR was 7.129%.
- The financial covenants relating to the facility are as follows: the interest cover ratio for any measurement period should not be less than 4 times and the net debt to EBITDA ratio for any measurement period should not be more than 2.5 times. There was no utilisation of the facility during the year and therefore no requirement to meet covenants.
- ABSA: R0.5m credit card facilities. Interest is payable at ABSA's prime lending rate plus 6.5%. At the reporting date the prime lending rate was 10.5%.

The Venture

- GOSA, acting on behalf of the Venture, and Merafe Ferrochrome have a Treasury Service Agreement (TSA) with Glencore Holdings South Africa (Pty) Ltd (Service Provider/GHSA). Loans and overdraft funding and issuance of guarantee instruments are among the services offered by the Service Provider to the Venture.
- Interest is charged as follows on overnight funding: USD - Fed Funds Lower Bound plus 1.3%; ZAR - Prime lending rate less 1.6%.
- The facilities remain undrawn as at 31 December 2022.

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Figures in Rand thousand

27. Financial instruments and risk management (continued)

As indicated, GHSA also issues guarantees on behalf of the Venture. At year end, the Venture had the following guarantees in place (Merafe's attributable portion):

Group - 31 December 2022	GHSA	ABSA	FNB	Total
Eskom	52,323	-	-	52,323
Department of Mineral Resources	87,378	1,310	20	88,708
Customs and excise	6	-	-	6
Town councils and water boards	11,726	-	-	11,726
	151,433	**1,310**	**20**	**152,763**

Group - 31 December 2021	GHSA	ABSA	FNB	Total
Eskom	52,323	-	-	52,323
Department of Mineral Resources	69,099	1,310	20	70,429
Custom and excise	8,179	-	-	8,179
Town councils and water boards	1,268	-	-	1,268
	130,869	**1,310**	**20**	**132,199**

All of the above guarantees are in the name of GHSA and relate to the Venture. The guarantees are not assessed for ECLs as per IFRS 9 as they are guaranteed by the individual banks and counterparties and measured at fair value.

Company - 31 December 2022	ABSA	Total
Department of Mineral Resources	60	60
Facility available	**60**	**60**
Percentage utilised	100 %	100 %

Company - 31 December 2021	ABSA	Total
Department of Mineral Resources	60	60
Facility available	**60**	**60**
Percentage utilised	100 %	100 %

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

Group 2022	Current Year ended 31 December 2023	1 to 2 Year ended 31 December 2024	2 to 3 Year ended 31 December 2025	3+ Year ended 31 December 2026 onwards	Total
Non-derivative					
Lease liabilities	(5,304)	(4,147)	(1,867)	(6,456)	(17,774)
Trade and other payables	(708,936)	-	-	-	(708,936)
Total	**(714,240)**	**(4,147)**	**(1,867)**	**(6,456)**	**(726,710)**

Company 2022					
Non-derivative					
Trade and other payables	(1,424)	-	-	-	(1,424)

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	Group		Company	
	2022 R '000	2021 R '000	2022 R '000	2021 R '000

27. Financial instruments and risk management (continued)

Group 2021	Current Year ended 31 December 2022	1 to 2 Year ended 31 December 2023	2 to 3 Year ended 31 December 2024	3+ Year ended 31 December 2025 onwards	Total
Non-derivative					
Lease liabilities	(5,658)	(4,857)	(3,567)	(6,813)	(20,895)
Trad and other payables	(737,323)	-	-	-	(737,323)
Total	**(742,981)**	**(4,857)**	**(3,567)**	**(6,813)**	**(758,218)**

Company 2021					
Non-derivative					
Lease liabilities	(126)	(94)	-	-	(220)
Trade and other payables	(1,951)	-	-	-	(1,951)
Total	**(2,077)**	**(94)**	**-**	**-**	**(2,171)**

27.3 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 transactions and translation exposure from fluctuations in foreign currency exchange rates.

The Group's exposure to foreign currency risk is as follows:

US Dollar exposure:
Amounts in US$'000

Trade and other receivables	52,627	78,084	-	-
Customer foreign currency account	19,060	13,806	-	-
Net US Dollar exposure	**71,687**	**91,890**	**-**	**-**

Exchange rates

The following exchange rates were applied during the year:

Average rate				
Rand: United States Dollar	16.08	14.77	-	-
Reporting date spot rate				
Rand: United State Dollar	17.00	15.94	-	-

Foreign currency sensitivity analysis

A 10 percent weakening of the Rand against the US$ at 31 December 2022 would have increased equity and profit before tax by R122m (2021: R144m). A 10 percent strengthening of the Rand at 31 December 2022 against the US$ would have decreased equity and profit before tax by R122m (2021: R144m). This analysis assumes that all other variables, in particular interest rates, remain constant. This sensitivity does not represent the profit and loss impact that would be expected from a movement in foreign currency exchange rates over the course of a period of time.

Figures in Rand thousand

27. Financial instruments and risk management (continued)

Interest rate risk profile

At the reporting date, the interest rate profile of the Group's interest-bearing financial instruments were:

	Note	Average effective interest rate		Carrying amount	
Group		2022	2021	2022	2021
Cash and cash equivalents					
Local currency*		5.84 %	4.52 %	944,504	751,995
Foreign currency		1.13 %	0.35 %	324,095	220,134
				1,268,599	**972,129**

* Cash balances in local currency receive interest as follows at reporting date:

a) The Venture: prime less 3.55%

b) The Company and Merafe Ferrochrome

Call deposits: daily call deposits rates. At year end the call deposit rate was 5.71%
Current account balances

- favourable: 1.9%

- unfavourable: prime which was 10.5%

* Access Deposit: The average rate was 5.95%.

Sensitivity analysis for interest rate risk

Cash and cash equivalents

An increase of 50 basis points in interest rates will increase equity and profit or loss by R6m (2021: R5m*). A decrease of 50 basis points in interest rates would have the equal but opposite effect. This analysis assumes all other variables remain constant.

* The comparative has been updated to be consistent with the determination of the current year amount.

Figures in Rand thousand

27. Financial instruments and risk management (continued)

27.4 Categories of financial instruments

The following tables present the carrying values and fair values of the Group's financial instruments. Fair value is the price that would be expected to be received to sell an asset or paid to transfer a liability in a market at the measurement date under current market conditions. Where available, market values have been used to determine fair values. When market values are not available, fair values have been calculated by discounting expected cash flows at prevailing market interest and exchange rates. The estimated fair values have been determined using market information and appropriate valuation methodologies, but are not necessarily indicative of the amounts that the Group could realise in the normal course of business. Amortised costs approximates fair value.

The financial assets and liabilities are presented by class in the tables below at their carrying values

Categories of financial assets

Group - 2022

	Note(s)	Fair value through profit or loss	Amortised cost	Total
Trade and other receivables	11	233,407	633,031	866,438
Cash and cash equivalents	13	-	1,268,599	1,268,599
Long-term receivable	8	38,663	-	38,663
Other long-term receivable	40	-	14,229	14,229
		272,070	**1,915,859**	**2,187,929**

Group - 2021

	Note(s)	Fair value through profit or loss	Amortised cost	Total
Trade and other receivables	11	239,304	1,314,937	1,554,241
Cash and cash equivalents	13	-	972,129	972,129
Long-term receivable	8	13,444	-	13,444
		252,748	**2,287,066**	**2,539,814**

Company - 2022

	Note(s)	Amortised cost	Total
Loan to subsidiary	10	965,184	965,184
Trade and other receivables	11	9,879	9,879
Cash and cash equivalents	13	402	402
Other long-term receivable	40	14,229	14,229
		989,694	**989,694**

Company - 2021

	Note(s)	Amortised cost	Total
Loan to subsidiary	10	985,157	985,157
Trade and other receivables	11	11,149	11,149
Cash and cash equivalents	13	79	79
		996,385	**996,385**

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Figures in Rand thousand

27. Financial instruments and risk management (continued)

Categories of financial liabilities

Group - 2022

	Note(s)	Amortised cost	Leases	Total
Trade and other payables	18	708,938	-	708,938
Lease obligations	15	-	12,943	12,943
Other financial liabilities at fair value		-	-	-
		708,938	**12,943**	**721,881**

Group - 2021

	Note(s)	Amortised cost	Leases	Total
Trade and other payables	18	737,323	-	737,323
Lease obligations	15	-	14,907	14,907
		737,323	**14,907**	**752,230**

Company - 2022

	Note(s)	Amortised cost	Total
Trade and other payables	18	1,424	1,424

Company - 2021

	Note(s)	Amortised cost	Leases	Total
Trade and other payables	18	1,951	-	1,951
Lease obligations	15	-	202	202
		1,951	**202**	**2,153**