

Notes to the financial statements continued

for the year ended 31 December

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, its objectives, policies and processes for measuring and managing risk, and its management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board has overall responsibility for establishing and overseeing the Group's risk management framework. The Board has established an Audit and Risk Committee 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 the operations level by internal audit. Internal audits undertake both regular and ad hoc reviews of risk management controls and procedures, the results 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 primary 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 counterparty to a financial instrument fails to meet its contractual obligations. The Group minimises credit risk by ensuring that the exposure is spread over several counterparties.

Credit risk exposure arises from transactions in the Group's ordinary course of business and applies to all financial assets. Counterparties are assessed before, during and after the 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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27. Financial instruments and risk management continued

27.1 Credit risk 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, have less of an influence on credit risk. Management has considered recoverability of trade and other receivables noted in notes 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 several years and the Group has not been exposed to significant unrecoverable amounts, the Group does not believe 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:

	Group		Company	
R'000	2024 R'000	2023 R'000	2024 R'000	2023 R'000
Exposure to credit risk				
Loan to subsidiary at amortised cost	–	–	915 892	942 612
Other long-term receivable at amortised cost	17 730	14 229	17 730	14 229
Trade and other receivables at amortised cost and fair value through profit and loss	1 173 369	1 543 185	8 277	15 470
Long-term receivable at fair value	64 260	37 287	–	–
Cash and cash equivalents at amortised cost	1 794 911	1 655 807	2 680	1 732
	3 050 270	3 250 508	944 579	974 043

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 managing 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 returns on investments. Typically, the Group ensures that it has sufficient cash on demand to meet expected operational expenses for 60 days, including servicing financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

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27. Financial instruments and risk management continued

27.2 Liquidity risk continued

In addition, the Group maintained the following facilities at 31 December 2024:

The Company

- ABSA Bank Limited (ABSA): R1 million credit card facilities. Interest is payable at ABSA is the prime lending rate plus 7.5%. At the reporting date, the prime lending rate was 11.25%.
- ABSA: R0.3 million guarantee facility.
- ABSA: R5 million daylight facility.

Merafe Ferrochrome

- ABSA: R20 million guarantee facility.
- ABSA: R5 million daylight facility.
- ABSA facility: This is a R300 million (2023: R300 million) revolving credit facility, and the interest is calculated at three months JIBAR plus a margin of 220 basis points. As at 31 December 2024, 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 is 0.4% per annum. As at 31 December 2024, the three months JIBAR was 7.6%.
- The financial covenants relating to the facility are as follows: the interest cover ratio for any measurement period should not be less than four 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.

The Venture

- GOSA, acting on behalf of the Venture, and Merafe Ferrochrome have a Treasury Service Agreement with Glencore Holdings South Africa Proprietary Limited (Service Provider/GHSA). Loans, overdraft funding, and issuance of guarantee instruments are among the services offered by the Service Provider to the Venture.
- Interest is charged on overnight funding: USD – Secured Overnight Financing Rate plus 1.05%; ZAR – Prime lending rate less 1.75%.
- The overdraft facilities remain undrawn as at 31 December 2024.

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):

R'000	GHSA	ABSA	FNB	Total
Group – 31 December 2024				
Eskom	169 678	–	–	169 678
Department of Mineral Resources and Energy	73 164	1 310	20	74 494
Customs and excise	6	–	–	6
Town councils and Maputo Port Development Company	15 880	–	–	15 880
	258 728	1 310	20	260 058
Group – 31 December 2023				
Eskom	53 200	–	–	53 200
Department of Mineral Resources and Energy	71 653	1 310	20	72 983
Custom and excise	6	–	–	6
Town councils and water boards	15 375	–	–	15 375
	140 234	1 310	20	141 564

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

R'000	ABSA	Total
Company – 31 December 2024		
Department of Mineral Resources and Energy	60	60
Facility available	60	60
Percentage utilised	100	100
Company – 31 December 2023		
Department of Mineral Resources and Energy	60	60
Facility available	60	60
Percentage utilised	100	100

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27. Financial instruments and risk management continued

27.2 Liquidity risk continued

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

R'000	Current year ended 31 December 2025	1 to 2 year ended 31 December 2026	2 to 3 year ended 31 December 2027	3+ year ended 31 December 2028 onwards	Total
Group 2024					
Non-derivative					
Lease obligation	1 867	1 921	1 345	3 192	8 325
Trade and other payables	638 005	–	–	–	638 005
Total	639 872	1 921	1 345	3 192	646 330
Company 2024					
Non-derivative					
Trade and other payables	4 061	–	–	–	4 061

R'000	Current year ended 31 December 2024	1 to 2 year ended 31 December 2025	2 to 3 year ended 31 December 2026	3+ year ended 31 December 2027 onwards	Total
Group 2023					
Non-derivative					
Lease obligation	4 148	1 867	1 921	4 536	12 472
Trade and other payables	810 758	–	–	–	810 758
Total	814 906	1 867	1 921	4 536	823 230
Company 2023					
Non-derivative					
Trade and other payables	3 607	–	–	–	3 607

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 ordinary course of business, the Group enters into transactions denominated in foreign currencies (primarily USD). 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:

Group	2024	2023
US Dollar exposure:		
Amounts in USD'000		
Trade and other receivables	48 212	61 249
Customer foreign currency account	37 922	30 937
Net US Dollar exposure	86 134	92 186
Exchange rates		
The following closing exchange rates were applied at reporting date:		
Average rate		
Rand: United States Dollar	18.24	18.62
Reporting date spot rate		
Rand: United States Dollar	18.89	18.27

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27. Financial instruments and risk management continued

27.3 Market risk continued

Foreign currency sensitivity analysis

A 10 per cent weakening of the Rand against the USD on 31 December 2024 would have increased equity and profit before tax by R163 million (2023: R168 million). A 10 per cent strengthening of the Rand at 31 December 2024 against the USD would have an equal but opposite effect. 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.

Interest rate risk profile

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

	Average effective interest rate		Carrying amount	
	2024 %	2023 %	2024 R'000	2023 R'000
Group				
Variable rate instruments:				
Cash and cash equivalents				
Local currency*	8.79	8.72	1 078 558	1 090 515
Foreign currency	5.14	5.00	716 353	565 292
			1 794 911	1 655 807

* Cash balances in local currency earned an effective interest as follows at reporting date:

The Venture

Current account: 8.15%.

The Company and Merafe Ferrochrome

Access call deposit: 9.28%.

Current account: favourable – 2.16%; unfavourable – prime lending rate which is 11.25%.

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 R9 million (2023: R8 million). A decrease of 50 basis points in interest rates would have an equal but opposite effect. This analysis assumes all other variables remain constant.

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 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 unavailable, fair values are 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 ordinary course of business. Amortised costs approximate fair value.

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27. Financial instruments and risk management continued

27.4 Categories of financial instruments continued

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

Categories of financial assets

R'000	Notes	Fair value through profit or loss	Amortised cost	Total
Group 2024				
Trade and other receivables	11	73 486	1 099 883	1 173 369
Cash and cash equivalents	13	–	1 794 911	1 794 911
Long-term receivable	8	64 260	–	64 260
Other long-term receivable	40	–	17 730	17 730
		137 746	2 912 524	3 050 270
Group 2023				
Trade and other receivables	11	66 931	1 476 254	1 543 185
Cash and cash equivalents	13	–	1 655 807	1 655 807
Long-term receivable	8	37 287	–	37 287
Other long-term receivable	40	–	14 229	14 229
		104 218	3 146 290	3 250 508

R'000	Notes	Amortised cost	Total
Company 2024			
Loan to subsidiary	10	915 892	915 892
Trade and other receivables	11	8 277	8 277
Cash and cash equivalents	13	2 680	2 680
Other long-term receivable	40	17 730	17 730
		944 579	944 579
Company 2023			
Loan to subsidiary	10	942 612	942 612
Trade and other receivables	11	15 470	15 470
Cash and cash equivalents	13	1 732	1 732
Other long-term receivables	40	14 229	14 229
		974 043	974 043

Categories of financial liabilities

R'000	Notes	Amortised cost	Leases	Total
Group 2024				
Trade and other payables	18	638 005	–	638 005
Lease obligation	15	–	5 873	5 873
		638 005	5 873	643 878
Group 2023				
Trade and other payables	18	810 758	–	810 758
Lease obligation	15	–	9 059	9 059
		810 758	9 059	819 817
Company 2024				
Trade and other payables	18	4 061	–	4 061
Company 2023				
Trade and other payables	18	3 607	–	3 607