13 Intangible assets – continued

Telkom CGU

On the Telkom CGU impairment indicators test in March 2017 has been performed. The test considered the relationship between the CGU's market capitalisation and book value, gross operating revenue growth and EBITDA. The market capitalisation of the CGU is higher than its book value and both operating revenue and EBITDA showed an increase in the last 12 months. This indicates that the Telkom CGU is not impaired.

14 Financial instruments and risk management

Financial risk management objectives and policies

The group's principal financial liabilities, other than derivatives, comprise interest bearing debt and trade and other payables. The main purpose of these financial liabilities is to raise finance for the group's operations.

The group has finance lease receivables, trade and other receivables, cash and cash equivalents and short-term deposits that arise directly from its operations. The group uses derivatives as hedging instruments.

The group is exposed to market risk, credit risk and liquidity risk. The group's senior management oversees the management of these risks supported by a financial risk committee that advises on financial risks and the appropriate financial risk governance framework. The financial risk committee provides assurance to the group's senior management that the group's financial risk-taking activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with group policies and group risk appetite. All derivative activities for risk management purposes are carried in accordance with the group's policy. The group does not speculate in derivative instruments.

Risk management

The group has exposure to the following risks from its use of financial instruments: credit risk, liquidity risk and market risk. Treasury policies, risk limits and control procedures are continuously monitored by the board of directors through its audit committee and risk committee to manage the financial risks.

The group holds or issues financial instruments to finance its operations, for the temporary investment of short-term funds and to manage currency and interest rate risks. In addition, financial instruments, for example trade receivables and payables, arise directly from the group's operations.

The group finances its operations primarily by a mixture of issued share capital, retained earnings, long-term and short-term loans. The group uses derivative financial instruments to manage its exposure to market risks from changes in interest and foreign exchange rates. The derivatives used for this purpose are principally interest rate swaps, cross-currency swaps and forward exchange contracts. The group applied fair value hedge accounting in the current and prior financial year.

Notes to the consolidated annual financial statements – continued

for the year ended 31 March 2017

The table below sets out the group's classification of financial assets and liabilities.

14 Financial instruments and risk management – continued	Notes	At fair value through profit or loss–held for trading Rm	Financial liabilities at amortised cost Rm	Held-to-maturity Rm	Loans and receivables Rm	Total carrying value Rm	Fair value Rm
2017							
Classes of financial instruments per statement of financial position							
Assets		**162**	**–**	**–**	**9 750**	**9 912**	**9 912**
Other investments*	15.2	**11**	**–**	**–**	**–**	**11**	**11**
Trade and other receivables**	19	**–**	**–**	**–**	**7 556**	**7 556**	**7 556**
Other financial assets	20	**151**	**–**	**–**	**35**	**186**	**186**
Forward exchange contracts		**54**	**–**	**–**	**–**	**54**	**54**
Firm commitments		**24**	**–**	**–**	**–**	**24**	**24**
Asset finance receivables		**73**	**–**	**–**	**–**	**73**	**73**
Loans		**–**	**–**	**–**	**35**	**35**	**35**
Finance lease receivables	16	**–**	**–**	**–**	**547**	**547**	**547**
Cash and cash equivalents	21	**–**	**–**	**–**	**1 612**	**1 612**	**1 612**
Liabilities		**(440)**	**(13 919)**	**–**	**–**	**(14 359)**	**(14 652)**
Interest bearing debt	26	**–**	**(6 285)**	**–**	**–**	**(6 285)**	**(6 578)**
Trade and other payables	30	**–**	**(7 516)**	**–**	**–**	**(7 516)**	**(7 516)**
Shareholders for dividend	35	**–**	**(25)**	**–**	**–**	**(25)**	**(25)**
Other financial liabilities	20	**(440)**	**–**	**–**	**–**	**(440)**	**(440)**
Forward exchange contracts		**(189)**	**–**	**–**	**–**	**(189)**	**(189)**
Interest rate swaps		**(22)**	**–**	**–**	**–**	**(22)**	**(22)**
Firm commitments		**(229)**	**–**	**–**	**–**	**(229)**	**(229)**
Credit facilities utilised	21	**–**	**(93)**	**–**	**–**	**(93)**	**(93)**
2016							
Classes of financial instruments per statement of financial position							
Assets		2 388	–	1 634	10 084	14 106	14 106
Other investments*	15.2	2 248	–	–	–	2 248	2 248
Trade and other receivables**	19	–	–	–	7 013	7 013	7 013
Other financial assets	20	140	–	1 634	35	1 809	1 809
Forward exchange contracts		20	–	–	–	20	20
Firm commitments		43	–	–	–	43	43
Cross-currency swaps		38	–	–	–	38	38
Asset finance receivables		39	–	–	–	39	39
Loans		–	–	–	35	35	35
Repurchase agreements		–	–	1 634	–	1 634	1 634
Finance lease receivables	16		–	–	488	488	488
Cash and cash equivalents	21		–	–	2 548	2 548	2 548
Liabilities		(455)	(12 431)	–	–	(12 886)	(13 186)
Interest bearing debt	26	–	(5 269)	–	–	(5 269)	(5 569)
Trade and other payables	30	–	(7 134)	–	–	(7 134)	(7 134)
Shareholders for dividend	35	–	(22)	–	–	(22)	(22)
Other financial liabilities	20	(455)	–	–	–	(455)	(455)
Forward exchange contracts		(155)		–	–	(155)	(155)
Firm commitments		(293)				(293)	(293)
Interest rate swaps		(7)	–	–	–	(7)	(7)
Credit facilities utilised	21	–	(6)	–	–	(6)	(6)

The table below sets out the company's classification of financial assets and liabilities.

14 Financial instruments and risk management – continued	Notes	At fair value through profit or loss–held for trading Rm	Financial liabilities at amortised cost Rm	Held-to-maturity Rm	Loans and receivables Rm	Total carrying value Rm	Fair value Rm
2017							
Classes of financial instruments per statement of financial position							
Assets		**78**	**–**	**–**	**7 872**	**7 950**	**7 950**
Other investments	15.2	**–**	**–**	**–**	**–**	**–**	**–**
Trade and other receivables**	19	**–**	**–**	**–**	**6 360**	**6 360**	**6 360**
Other financial assets	20	**78**	**–**	**–**	**–**	**78**	**78**
Forward exchange contracts		**54**	**–**	**–**	**–**	**54**	**54**
Firm commitments		**24**	**–**	**–**	**–**	**24**	**24**
Finance lease receivables	16	**–**	**–**	**–**	**547**	**547**	**547**
Cash and cash equivalents	21	**–**	**–**	**–**	**965**	**965**	**965**
Liabilities		**(440)**	**(14 850)**	**–**	**–**	**(15 290)**	**(15 582)**
Interest bearing debt	26	**–**	**(6 168)**	**–**	**–**	**(6 168)**	**(6 460)**
Trade and other payables	30	**–**	**(8 656)**	**–**	**–**	**(8 656)**	**(8 656)**
Shareholders for dividend	35	**–**	**(23)**	**–**	**–**	**(23)**	**(23)**
Other financial liabilities	20	**(440)**	**–**	**–**	**–**	**(440)**	**(440)**
Firm commitments		**(229)**	**–**	**–**	**–**	**(229)**	**(229)**
Interest rate swaps		**(22)**	**–**	**–**	**–**	**(22)**	**(22)**
Forward exchange contracts		**(189)**	**–**	**–**	**–**	**(189)**	**(189)**
Credit facilities utilised	21	**–**	**(3)**	**–**	**–**	**(3)**	**(3)**
2016							
Classes of financial instruments per statement of financial position							
Assets		2 336	–	1 634	7 818	11 788	11 788
Other investments	15.2	2 235	–	–	–	2 235	2 235
Trade and other receivables**	19	–	–	–	5 108	5 108	5 108
Other financial assets	20	101	–	1 634	–	1 735	1 735
Forward exchange contracts		20	–	–	–	20	20
Firm commitment		43	–	–	–	43	43
Cross-currency swaps		38	–	–	–	38	38
Repurchase agreements		–		1 634		1 634	1 634
Finance lease receivables	16	–	–	–	488	488	488
Cash and cash equivalents	21	–	–	–	2 222	2 222	2 222
Liabilities		(442)	(11 666)	–	–	(12 108)	(12 408)
Interest bearing debt	26	–	(4 826)	–	–	(4 826)	(5 126)
Trade and other payables	30	–	(6 820)	–	–	(6 820)	(6 820)
Shareholders for dividend	35	–	(20)	–	–	(20)	(20)
Other financial liabilities	20	(442)	–	–	–	(442)	(442)
Firm commitment		(293)	–	–	–	(293)	(293)
Interest rate swaps		(7)	–	–	–	(7)	(7)
Forward exchange contracts		(142)				(142)	(142)
Credit facilities utilised	21	–	–	–	–	–	–

** Other investments are disclosed net of Investments accounted for using the equity method R29 million (2016: R70 million).*
*** Trade and other receivables are disclosed net of prepayments of R411 million (2016: R149 million) for the company and R600 million (2016: R362 million) for the group.*

Notes to the consolidated annual financial statements – continued

for the year ended 31 March 2017

14 Financial instruments and risk management – continued

The fair value of financial instruments is included at the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, or in its absence, the most advantageous market to which the group has access at that date. The fair value of a liability reflects its non-performance risk. The fair value of cash and short-term deposits, trade and other receivables, other financial assets, finance leases, trade and other payables, and other liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments. Long-term receivables and borrowings are evaluated by the group based on parameters such as interest rates, specific country factors and the individual creditworthiness of the customer. Based on this evaluation, allowances are taken to account for the expected losses of these receivables. As at the reporting date, the carrying amount of such receivables, net of allowances, are not materially different from their calculated fair values. Fair values of quoted bonds are based on price quotations at the reporting date.

14.1 Fair value of financial instruments

Valuation techniques and assumptions applied for the purposes of measuring fair value

Fair value of all financial instruments noted in the statement of financial position approximates carrying value except as disclosed below.

The carrying amount of financial instruments approximates fair value, with the exception of interest bearing debt (at amortised cost) which has a fair value of R6 578 million (2016: R5 569 million) and a carrying amount of R6 285 million (2016: R5 269 million).

The fair value of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations.

For financial assets and liabilities not traded in an active market, a valuation technique is applied to derive the fair value, which takes into account quoted prices for similar or identical liabilities in active or inactive markets using observable inputs where necessary.

Fair value hierarchy

Type of financial instrument – group	Fair value at 31 March 2017 Rm	Valuation technique	Significant inputs
Receivables, bank balances, repurchase agreements, and other liquid funds, payables and accruals, credit facilities utilised and shareholders for dividends	4 473	Undiscounted future estimated cash flows due to short-term maturities of these instruments	Probability of default
Derivatives	(363)	Discounted cash flows	Yield curves Market interest rate Market foreign exchange rate
Borrowings	(6 578)	Discounted cash flows and quoted bond prices	Market interest rate Market foreign exchange rate

Fair value hierarchy

The following table presents the group's assets and liabilities that are measured at fair value at reporting date. The different levels have been defined as follows:

Level 1: Quoted prices in active markets.
Level 2: All significant inputs required to value an instrument are observable market data.
Level 3: Significant inputs required to value an instrument are not based on observable market data.

There were no transfers between levels.

14 Financial instruments and risk management – continued	**Group**			
	Total Rm	**Level 1 Rm**	**Level 2 Rm**	**Level 3 Rm**
14.1 Fair value of financial instruments - continued				
2017				
Assets measured at fair value				
Forward exchange contracts	**54**	**–**	**54**	**–**
Asset finance receivable	**73**	**–**	**73**	**–**
Firm commitments	**24**	**–**	**24**	**–**
Loans	**35**	**–**	**35**	**–**
FutureMakers (refer to note 15.2)	**11**	**–**	**–**	**11**
Investment in cell captive preference shares	**2 388**	**–**	**2 388**	**–**
Liabilities measured at fair value				
Forward exchange contracts	**(189)**	**–**	**(189)**	**–**
Firm commitments	**(229)**	**–**	**(229)**	**–**
Interest rate swaps	**(22)**	**–**	**(22)**	**–**
Liabilities measured at amortised cost				
Interest bearing debt	**(6 578)**	**–**	**(6 578)**	**–**

	Group			
	Total Rm	Level 1* Rm	Level 2 Rm	Level 3 Rm
2016				
Assets measured at fair value				
Cross-currency swaps	38	–	38	–
Forward exchange contracts	20	–	20	–
Asset finance receivable	39		39	
Firm commitments	43	–	43	–
Loans	35	–	35	–
FutureMakers (refer to note 15.2)	13	–	–	13
Investment in cell captive preference shares	2 235	–	2 235	–
Liabilities measured at fair value				
Firm commitments	(155)	–	(155)	–
Forward exchange contracts	(293)	–	(293)	–
Interest rate swaps	(7)	–	(7)	–
Liabilities measured at amortised cost				
Interest bearing debt*	(5 569)		(5 569)	–

** Refer to note 2.2*

Notes to the consolidated annual financial statements – continued

for the year ended 31 March 2017

14 Financial instruments and risk management – continued	Company			
	Total Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm
14.1 Fair value of financial instruments - continued				
2017				
Assets measured at fair value				
Cross-currency swaps	–	–	–	–
Forward exchange contracts	54	–	54	–
Firm commitments	24	–	24	–
Investment in cell captive preference shares	2 388	–	2 338	–
Liabilities measured at fair value				
Forward exchange contracts	(189)	–	(189)	–
Firm commitments	(229)	–	(229)	–
Interest rate swaps	(22)	–	(22)	–
Liabilities measured at amortised cost				
Interest bearing debt	(6 460)	–	(6 460)	–

	Company			
	Total Rm	Level 1 * Rm	Level 2 Rm	Level 3 Rm
2016				
Assets measured at fair value				
Cross-currency swaps	38	–	38	–
Forward exchange contracts	20	–	20	–
Firm commitments	43	–	43	–
Investment in cell captive preference shares	2 235	–	2 235	–
Liabilities measured at fair value				
Firm commitments	(293)	–	(293)	–
Forward exchange contracts	(142)	–	(142)	–
Interest rate swaps	(7)	–	(7)	–
Liabilities measured at amortised cost				
Interest bearing debt*	(5 126)	–	(5 126)	–

** Refer to note 2.2*

14 Financial instruments and risk management – continued

14.2 Credit risk management

Credit risk or the risk of financial loss is the risk that a counterparty will not meet its contractual obligations as they fall due. The group is exposed to credit risk from its operating activities and from financing activities, including deposits with banks and financial institutions. The group is not exposed to significant concentrations of credit risk as credit limits are set on an individual basis and reviewed regularly.

The group's maximum exposure to credit risk is represented by the carrying amount of the financial assets that are exposed to credit risk.

The group's exposure to credit risk is influenced mainly by the individual characteristics of each type of customer. Management reduces the risk of irrecoverable debt by improving credit management through credit checks and limits. To reduce the risk of counterparty failure, limits are set based on the individual ratings of counterparties by well-known ratings agencies. Trade receivables comprise a large widespread customer base, covering residential, business, government, wholesale, global and corporate customer profiles.

Credit checks are performed on all customers, other than prepaid customers, on application for new services on an ongoing basis where appropriate.

The group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets as well as expected future cash flows, refer to note 20.

Credit risk from balances with banks and financial institutions is managed by the group's treasury department in accordance with the group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed annually or when the need arises. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty failure.

The maximum exposure to credit risk for financial assets at the reporting date by type of instrument and counterparty was:

	Group Carrying amount		Company Carrying amount	
	2017 Rm	2016 Rm	**2017 Rm**	2016 Rm
Trade receivables (refer to note 19)				
Telkom SA	**6 070**	5 588	**6 070**	4 678
Business and residential	**1 363**	1 601	**1 363**	1 355
Global, corporate and wholesale	**2 485**	1 751	**2 485**	1 751
Government	**894**	1 324	**894**	660
Other customers	**1 328**	912	**1 328**	912
South African subsidiaries	**901**	811	**-**	-
Impairment of trade receivables (refer to note 19)	**(596)**	(664)	**(449)**	(518)
Subtotal for trade receivables	**6 375**	5 735	**5 621**	4 160
Other receivables*	**1 183**	1 279	**739**	949
Derivatives	**78**	101	**78**	101
Asset finance	**73**	39	**-**	-
Loans	**35**	35	**-**	-
Repurchase agreements	**-**	1 634	**-**	1 634
Investments**	**11**	2 248	**-**	2 235
Finance lease receivables	**547**	488	**547**	488
Net cash and cash equivalents	**1 519**	2 548	**962**	2 222
	9 821	14 107	**7 947**	11 789

* *Trade and other receivables are disclosed net of prepayments of R411 million (2016: R149 million) for the company and R600 million (2016: R362 million) for the group.*

** *Other investments are disclosed net of Investments accounted for using the equity method R29 million (2016: R70 million).*

Notes to the consolidated annual financial statements – continued

for the year ended 31 March 2017

14 Financial instruments and risk management – continued	Group Carrying amount 2017 Rm	Group Carrying amount 2016 Rm	Company Carrying amount 2017 Rm	Company Carrying amount 2016 Rm
14.2 Credit risk management - continued				
The ageing of trade receivables at the reporting date was:				
Not past due/current	**4 695**	4 831	**4 559**	3 484
Past due but not impaired				
21 to 60 days	**1 471**	553	**881**	487
61 to 90 days	**313**	256	**185**	223
91 to 120 days	**124**	124	**79**	76
120+ days	**368**	635	**366**	408
	6 971	6 399	**6 070**	4 678
The ageing in the allowance for the impairment of trade receivables at reporting date was:				
Current defaulted trade	**54**	47	**28**	45
21 to 60 days	**45**	37	**44**	36
61 to 90 days	**58**	64	**57**	62
91 to 120 days	**46**	38	**44**	24
120+ days	**393**	478	**276**	351
	596	664	**449**	518

The movement in the allowance for impairment in respect of trade receivables during the year is disclosed in note 19.

Included in the allowance for doubtful debts for Telkom company are individually impaired receivables with a balance of R174 million (2016: R319 million) which have been identified as being unable to service their debt obligation. The impairment recognised represents the difference between the carrying amount of these trade receivables and the present value of the future cash flows. The group does not hold any collateral over these balances.

14 Financial instruments and risk management – continued

14.3 Liquidity risk management

Liquidity risk is the risk that the group will not be able to meet its financial obligations as they fall due. The group is exposed to liquidity risk as a result of uncertain cash flows as well as capital commitments of the group.

Liquidity risk is managed by the group's treasury department in accordance with policies and guidelines formulated by the group's executive committees. In terms of its borrowing requirements the group ensures that sufficient facilities exist to meet its immediate obligations. Short-term liquidity gaps may be funded through undrawn facilities and commercial paper bills.

There were no material changes in the exposure to liquidity risk and its objectives, policies and processes for managing and measuring the risk during the 2017 financial year.

The table below summarises the maturity profile of the group's financial liabilities based on undiscounted contractual cash flow at the reporting date.

14 Financial instruments and risk management – continued	Notes	Group					
		Carrying amount Rm	**Contractual cash flows Rm**	**0 - 12 months Rm**	**1 - 2 years Rm**	**2 - 5 years Rm**	**> 5 years Rm**
14.3 Liquidity risk management - continued							
2017							
Non-derivative financial liabilities							
Interest bearing debt (excluding finance leases)	26	**6 175**	**6 676**	**1 517**	**700**	**4 350**	**109**
Credit facilities utilised	21	**93**	**93**	**93**	**–**	**–**	**–**
Trade and other payables	30	**7 516**	**7 516**	**7 516**	**–**	**–**	**–**
Finance lease liabilities	26	**110**	**116**	**42**	**63**	**11**	**–**
Shareholders for dividend	35	**25**	**25**	**23**	**–**	**–**	**–**
Derivative financial liabilities							
Interest rate swaps	20	**22**	**22**	**22**	**–**	**–**	**–**
Firm commitment	20	**229**	**229**	**229**	**–**	**–**	**–**
Forward exchange contracts	20	**189**	**189**	**189**	**–**	**–**	**–**
		14 359	**14 866**	**9 631**	**763**	**4 361**	**109**
2016							
Non-derivative financial liabilities							
Interest bearing debt (excluding finance leases)	26	5 165	5 868	700	1 062	3 970	135
Credit facilities utilised	21	6	6	6	–	–	–
Trade and other payables	30	7 134	7 134	7 134	–	–	–
Finance lease liabilities	26	103	122	43	47	30	2
Shareholders for dividend	35	22	22	–	–	–	–
Derivative financial liabilities							
Interest rate swaps		7	7	4	3		–
Firm commitment	20	293	293	293	–	–	–
Forward exchange contracts	20	155	142	142	–	–	–
		12 885	13 594	8 322	1 112	4 000	137

Notes to the consolidated annual financial statements – continued

for the year ended 31 March 2017

The table below summarises the maturity profile of the company's financial liabilities based on undiscounted contractual cash flow at the reporting date.

14 Financial instruments and risk management – continued	Notes	Company					
		Carrying amount Rm	**Contractual cash flows Rm**	**0 - 12 months Rm**	**1 - 2 years Rm**	**2 - 5 years Rm**	**> 5 years Rm**
14.3 Liquidity risk management - continued							
2017							
Non-derivative financial liabilities							
Interest bearing debt (excluding finance leases)	26	**6 158**	**6 659**	**1 500**	**700**	**4 350**	**109**
Trade and other payables	30	**8 656**	**8 656**	**8 656**	**–**	**–**	**–**
Finance lease liabilities	26	**10**	**10**	**7**	**3**	**–**	**–**
Shareholders for dividend	35	**23**	**23**	**23**	**–**	**–**	**–**
Derivative financial liabilities							
Interest rate swaps	20	**22**	**22**	**22**	**–**	**–**	**–**
Firm commitment	20	**229**	**229**	**229**	**–**	**–**	**–**
Forward exchange contracts	20	**189**	**189**	**189**	**–**	**–**	**–**
		15 287	**15 788**	**10 626**	**703**	**4 350**	**109**
2016							
Non-derivative financial liabilities		4 811	5 448	521	1 000	3 800	127
Interest bearing debt (excluding finance leases)	26	6 820	6 820	6 820	–	–	–
Trade and other payables	30	15	18	7	11		–
Finance lease liabilities	26	20	20	–	–	–	–
Shareholders for dividend	35						
Derivative financial liabilities		7	7	4	3	–	–
Interest rate swaps	20	293	293	293	–	–	–
Firm commitment	20	142	142	142	–	–	–
Forward exchange contracts	20	12 108	12 748	7 787	1 014	3 800	127

14 Financial instruments and risk management – continued

14.4 Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The objective of market risk management is to manage and control market risk exposure. Market risks comprise four types of risk: interest rate risk, currency risk, commodity price risk and other price risk, such as equity risk.

Changes in the market prices have an impact on the values of the underlying derivatives and an analysis has been prepared on the basis of changes in one variable and all other variables remaining constant.

Interest rate risk management

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk arises from the repricing of the group's forward cover and floating rate debt as well as incremental funding or new borrowings and refinancing of existing borrowings.

The group's policy is to manage interest cost through the utilisation of a mix of fixed and floating rate debt. In order to manage this mix in a cost efficient manner and to hedge specific exposure in the interest rate repricing profile of the existing borrowings, the group makes use of interest rate swaps. Fixed rate debt represents approximately 60% (2016: 66%) of the total debt. The debt profile of mainly fixed rate debt has been maintained to limit the group's exposure to interest rate increases.

The guideline is to target a fixed/floating debt ratio of 65% fixed, but adjusted to market conditions. In a scenario of low interest rates, a higher ratio may be established.

The table below summarises the interest rate swaps outstanding as at the reporting date:

14 Financial instruments and risk management – continued	Group		Company	
	Average maturity	Notional amount Rm	Average maturity	Notional amount Rm
14.4 Market risk - continued				
Interest rate risk management - continued				
2017				
Interest rate swaps outstanding				
Pay fixed and receive floating	**4.13 years**	**1 420**	**4.13 years**	**1 420**
2016				
Interest rate swaps outstanding				
Pay fixed and receive floating	2.73 years	1 070	2.73 years	1 070

Pay fixed and receive floating
The floating rate is based on the three-month JIBAR, and is settled in arrears. The interest rate swaps are used to manage interest rate risk on debt instruments.

Foreign currency exchange rate risk management
Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The group manages its foreign currency exchange rate risk by economically hedging all identifiable exposures via various financial instruments suitable to the group's risk exposure. The group implements fair value hedge accounting.

The group enters into forward exchange contracts and cross-currency swaps to hedge foreign currency exposure on the group's operations and liabilities. These forward exchange contracts are treated as fair value hedges.

The following table details the forward exchange contracts and cross-currency swaps outstanding at the reporting date.

Purchased	Group		Company	
	Foreign contract value m	Contract value Rm	Foreign contract value m	Contract value Rm
2017				
Currency				
USD	**271**	**3 822**	**270**	**3 815**
Euro	**16**	**252**	**16**	**252**
Other	**–**	**5**	**–**	**5**
		4 079		**4 072**
Cross-currency swaps				
USD	**–**	**–**	**–**	**–**
2016				
Currency				
USD	179	2 825	162	2 555
Euro	13	224	13	224
Other	–	3	–	2
		3 052		2 781
Cross-currency swaps				
USD	5	34	5	34

Notes to the consolidated annual financial statements – continued

for the year ended 31 March 2017

14 Financial instruments and risk management – continued

14.4 Market risk - continued

Foreign exchange risk - continued

Sell	Group		Company	
	Foreign contract value m	Contract value Rm	Foreign contract value m	Contract value Rm
2017				
Currency				
USD	**30**	**409**	**30**	**409**
Other	**–**	**7**	**–**	**7**
		416		**416**
2016				
Currency				
USD	10	158	8	127
Other	–	–		–
		158		127

The group has various monetary assets and liabilities in currencies other than the group's functional currency. The following table represents the net currency exposure (net carrying amount of foreign denominated monetary assets and liabilities) of the group according to the different foreign currencies.

	Group			Company		
	Euro Rm	United States Dollar Rm	Other Rm	Euro Rm	United States Dollar Rm	Other Rm
2017						
Net foreign currency monetary assets/ (liabilities)						
Functional currency of company operation						
South African rand	**(31)**	**(428)**	**(1)**	**(31)**	**(428)**	**(1)**
2016						
Net foreign currency monetary assets/ (liabilities)						
Functional currency of company operation						
South African rand	(35)	(598)	158	(40)	(293)	(1)

14 Financial instruments and risk management – continued

14.4 Market risk - continued

Sensitivity analysis

Interest rate and foreign currency risk

An interest rate sensitivity analysis is based on an increase or decrease of 1% (100 basis points) in the South African market interest rates and the prevailing information as at the reporting date.

The analysis assumes that all other variables remain constant. The analysis and changes in interest rates is performed on the same basis as was used in prior years.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the group's and company's profit for the year ended 31 March 2017 would decrease/increase by R33 million (2016: decrease/increase by R18 million).

The following table illustrates the sensitivity to a 100 basis points change in the interest rates on profit before taxes, with all other variables held constant:

Classes of financial instruments per statement of financial position	Group movement		Company movement	
	+ 1% Profit Rm	- 1% Profit Rm	+ 1% Profit Rm	- 1% Profit Rm
2017				
Assets				
Other financial assets	**10**	**(10)**	**10**	**(10)**
Cross-currency swaps	**–**	**–**	**–**	**–**
Forward exchange contract	**10**	**(10)**	**10**	**(10)**
Liabilities				
Other financial liabilities	**23**	**(23)**	**23**	**(23)**
Interest rate swaps	**23**	**(23)**	**23**	**(23)**
	33	**(33)**	**33**	**(33)**
2016				
Assets				
Other financial assets	6	(6)	6	(6)
Cross-currency swaps	–	–	–	–
Forward exchange contract	6	(6)	6	(6)
Liabilities				
Other financial liabilities	12	(12)	12	(12)
Interest rate swaps	12	(12)	12	(12)
	18	(18)	18	(18)

Notes to the consolidated annual financial statements – continued

for the year ended 31 March 2017

14 Financial instruments and risk management – continued

14.4 Market risk - continued

Sensitivity analysis

Foreign exchange currency risk

The foreign currency sensitivity analysis is based on a 10% strengthening or weakening of the rand against all currencies, from the rates applicable and prevailing information as at the reporting date.

If foreign exchange rates had been 10% higher/lower and all other variables were held constant, the group's and company's profit for the year ended 31 March 2017 would increase/decrease by R12 million for group (31 March 2016: increase/decrease by group R42 million). and R12 million for company (31 March 2016: increase/decrease by company R17million).

The following table illustrates the sensitivity to a 10% change in the exchange rates before taxes, with all other variables held constant:

Classes of financial instruments per statement of financial position	Group movement		Company movement	
	+ 10% movement (Depreciation) Rm	- 10% movement (Appreciation) Rm	+ 10% movement (Depreciation) Rm	- 10% movement (Appreciation) Rm
2017				
Assets				
Other financial assets	**344**	**(344)**	**344**	**(344)**
Forward exchange contract	**344**	**(344)**	**344**	**(344)**
Cross-currency swaps	**–**	**–**		
Liabilities				
Other financial liabilities	**(321)**	**321**	**(321)**	**321**
Firm commitment	**(321)**	**321**	**(321)**	**321**
Forward exchange contract				
Interest bearing debt	**(11)**	**11**	**(11)**	**11**
	12	**(12)**	**12**	**(12)**
2016				
Assets				
Other financial assets	255	(255)	255	(255)
Forward exchange contract	248	(248)	248	(248)
Cross-currency swaps	7	(7)	7	(7)
Cash and cash equivalents				
Liabilities				
Other financial liabilities	(282)	282	(257)	257
Firm commitment	(257)	257	(257)	257
Forward exchange contract	(25)	25	–	–
Interest bearing debt	(15)	15	(15)	15
	(42)	42	(17)	17

14 Financial instruments and risk management – continued

14.5 Equity price risk

The group's listed and unlisted investments are susceptible to market price risk arising from uncertainties about future values of the investment securities. Changes in the fair value of equity securities held by the group will fluctuate because of changes in market prices, caused by factors specific to the individual equity issuer, or factors affecting all similar equity securities traded on the market. The group is not exposed to commodity price risk. The group manages the equity price risk through diversification and placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the group's senior management on a regular basis. The group's board of directors reviews and approves all equity investment decisions.

At the reporting date, the total amount for local equity investments was R2 269 million (2016: R2 711 million). A 5% increase in the local and foreign equity portfolios at the reporting date would have increased profit or loss by R69 million (2016: R108 million) before tax. An equal and opposite change would have decreased profit or loss. A 5% fluctuation represents management's assessment of the reasonably possible changes in equity prices.

There will be no other impact on equity as the equity securities are classified as at fair value through profit or loss. The analysis assumes that all other variables remain constant and is performed on the same basis as the prior year.

14.6 Capital management

The group's policy is to manage the capital structure to ensure maximisation of shareholders' return, growth and ability to meet its obligations. Capital comprises equity and net debt which is monitored using, *inter alia*, a net debt to EBITDA ratio. The group's guidance is to keep the ratio below 1 times.

Net debt is defined as interest bearing debts, credit facilities utilised and other financial liabilities, less cash and cash equivalents and other financial assets. EBITDA is defined as earnings before depreciation, amortisation, impairment and losses, investment income, finance charges and fair value movements and taxation.

The group's dividend policy aims to provide shareholders with a competitive return on their investment, while assuring sufficient reinvestment of profits to achieve its strategy. The determination to pay dividends, and the amount of dividends, will be based on a number of factors, including the consideration of the financial results, capital and operating requirements, net debt levels and growth opportunities.

The net debt to EBITDA ratio at reporting date was as follows:

	Group		**Company**	
	2017 Rm	2016 Rm	**2017 Rm**	2016 Rm
Non-current portion of interest bearing debt	**4 744**	4 566	**4 661**	4 306
Current portion of interest bearing debt	**1 541**	703	**1 507**	520
Credit facilities utilised	**93**	6	**3**	–
Current portion of other financial liabilities	**440**	455	**441**	442
Less: Cash and cash equivalents	**(1 612)**	(2 548)	**(965)**	(2 222)
Less: Other financial assets	**(126)**	(1 754)	**(78)**	(1 735)
Net debt	**5 080**	1 428	**5 569**	1 311
EBITDA	**10 875**	8 776	**10 278**	8 024
Net debt to EBITDA ratio	**0.47**	0.16	**0.54**	0.16