NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 30 June 2016

35. Financial instruments – Fair values and risk management

35.1 Accounting classifications, fair values and risk association

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value. The risks associated with the balances are also indicated.

GROUP		Carrying amount		
	Note	Designated at fair value through profit or loss R000	Amortised cost R000	Total R000
June 2016				
Financial assets measured at fair value				
Joint venture – Hystead	6.3	#		
Derivative instruments – non-current	18	49 309		49 309
		49 309		49 309
Financial assets not measured at fair value				
Loans receivable – non-current	10		3 273 289	3 273 289
Loans receivable – current	10		400	400
Trade and other receivables	11		170 764	170 764
Cash and cash equivalents	12		187 754	187 754
			3 632 207	3 632 207
Financial liabilities measured at fair value				
Derivative instruments – non-current	18	101 198		101 198
		101 198		101 198
Financial liabilities not measured at fair value				
Long-term portion of interest-bearing borrowings	17		8 632 036	8 632 036
Short-term portion of interest-bearing borrowings	17		1 294 052	1 294 052
Trade and other payables	20		434 060	434 060
			10 360 148	10 360 148

GROUP		Carrying amount		
	Note	Designated at fair value through profit or loss R000	Amortised cost R000	Total R000
June 2015				
Financial assets measured at fair value				
Derivative instruments – non-current	18	53 132		53 132
		53 132		53 132
Financial assets not measured at fair value				
Loans receivable – non-current	10		2 258 125	2 258 125
Loans receivable – current	10		53 757	53 757
Trade and other receivables	11		81 875	81 875
Cash and cash equivalents	12		73 308	73 308
			2 467 065	2 467 065
Financial liabilities measured at fair value				
Derivative instruments – non-current	18	40 123		40 123
Derivative instruments – current	18	2 629		2 629
		42 752		42 752
Financial liabilities not measured at fair value				
Long-term portion of interest-bearing borrowings	17		5 919 909	5 919 909
Short-term portion of interest-bearing borrowings	17		772 000	772 000
Trade and other payables	20		284 519	284 519
			6 976 428	6 976 428

Values less than R1 000

Fair value and fair value hierarchy				Risks associated with the balance			
Level 1 R000	Level 2 R000	Level 3 R000	Total R000	Interest rate	Credit	Liquidity	Currency
		#		✓	✓		✓
	49 309		49 309	✓			✓
	49 309	#	49 309				
				✓	✓		✓
				✓	✓		
				✓	✓		
	101 198		101 198	✓		✓	✓
	101 198		101 198				
				✓		✓	
				✓		✓	
				✓			

Fair value and fair value hierarchy				Risks associated with the balance			
Level 1 R000	Level 2 R000	Level 3 R000	Total R000	Interest rate	Credit	Liquidity	Currency
	53 132		53 132	✓			✓
	53 132		53 132				
				✓	✓		✓
				✓	✓		
				✓	✓		
	40 123		40 123	✓		✓	✓
	2 629		2 629	✓		✓	✓
	42 752		42 752				
				✓		✓	
				✓		✓	
				✓			

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 30 June 2016

35. Financial instruments – Fair values and risk management continued

35.2 Measurement

i. Financial instruments measured at fair value

The following tables show the valuation techniques used in measuring level 2 and 3 fair values, as well as the significant unobservable inputs used:

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Derivatives	**Market comparison:** The valuation of the derivative instruments was determined by discounting the future cash flows using the JIBAR or LIBOR swap curve. Similar contracts are traded in active markets and the quotes reflect the actual transactions in similar instruments.	Not applicable	Not applicable
Joint venture – Hystead Limited (Hystead)	**Discounted cash flow:** The valuation model considers the present value of the net cash flows expected to be generated by the underlying shopping centres. The cash flow projections include specific estimates for 10 years. The expected net cash flows are discounted using a risk-adjusted discount rate.	• Annual growth rate • Exit cap rate	The estimated fair value would increase/ (decrease) if: • The annual growth rate was higher (lower) or • The exit cap rate was lower (higher)

ii. Financial instruments not measured at fair value

Loans receivable	Amortised cost	Not applicable	Not applicable
Trade and other receivables	**Carrying values:** Due to the short-term nature of receivables they are carried at the value expected to be received within the next 12 months as discounting them over months to settlement would not yield substantially different amounts. Their carrying value is considered to reflect their fair value.		
Cash and cash equivalents	The carrying value of cash is considered to reflect its fair value.		
Borrowings and payables	Amortised cost		

iii. Transfers between levels 1 and 2

There were no transfers in either direction between levels 1 and 2 during the current or prior year.

iv. Level 3 fair values

Reconciliation of level 3 fair values

The following table shows a reconciliation from the opening balances to the closing balances for level 3 fair values:

	GROUP June 2016 R000	GROUP June 2015 R000
Balance at 1 July		
Acquisition of 60% equity investment in Hystead at cost	#	
Net change in fair value of right to receive dividends	1 472 754	
Deferral of unrealised fair value change calculated with reference to unobservable inputs	(1 472 754)	
Balance at 30 June		

 # Values less than R1 000

There were no transfers out of level 3 during the current or prior year.

35. Financial instruments – Fair values and risk management continued

35.2 Measurement continued

v. Valuation sensitivity analysis

Joint venture – Hystead

For the fair value of the equity investment in Hystead, changes at the reporting date to one of the significant unobservable inputs, holding other inputs constant, would have the following effects:

	June 2016 Profit or loss	
	Increase	Decrease
Change in annual growth rate – 1%	33 268	(33 268)
Change in exit cap rate – 1%	(106 202)	106 202

35.3 Financial risk management

The group has exposure to the following risks arising from financial instruments:

- Interest rate risk
- Credit risk
- Liquidity risk and
- Currency risk.

i. Risk management framework

The board of directors (board) has overall responsibility for the establishment and oversight of the group's risk management framework. The board reviews and monitors the effectiveness of internal control systems, assisted by the audit and risk committees. These committees in turn are assisted by management reporting and periodic reviews, as well as reports from an outsourced internal audit service provider. The committees report to the board on the findings of the internal audit function.

Executive management implements controls to ensure the validity, accuracy and completeness of financial information. These controls are reviewed by internal audit. On an operational level, these controls are implemented by the executive committee.

The risk committee has an independent role, operating as an overseer and making recommendations to the board for its consideration and final approval. The committee does not assume the functions of management, which remain the responsibility of the executive directors, officers and other members of senior management. The main role of the committee is to adopt and implement an appropriate risk management policy, aligned with industry practice. For further detail on the role and mandate of this committee, please refer to its charter online.

ii. Interest rate risk

Interest rates are monitored and appropriate steps taken to ensure that Hyprop's exposure to interest rate fluctuations is limited. Interest rates have been fixed for periods ranging from 2016 to 2024 with an average maturity of 5,2 years. The average maturity of the fixed interest rate agreements and interest rate swaps is disclosed in *note 17 – Borrowings* and *note 18 – Derivative instruments*. The average rate of interest at year-end (applicable to total debt) was 6,7% (2015: 7,1%).

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 30 June 2016

35. Financial instruments – Fair values and risk management continued

35.3 Financial risk management continued

ii. Interest rate risk continued

Exposure to interest rate risk

The interest rate profile of the group's interest-bearing financial instruments as reported to the management of the group is as follows:

	GROUP June 2016 R000	GROUP June 2015 R000
Total bank debt and debt capital market funding:	9 708 925	6 691 909
Less non-controlling interest – Gruppo	(234 307)	
Hyprop exposure	9 474 618	6 691 909
Total fixed debt	7 652 666	6 321 140
Total floating debt	1 821 952	370 769
	9 474 618	6 691 909
Debt at fixed interest rate %	80,8	94,5
South African debt %	89,6	96,7
USD debt %	72,4	89,9
Maturity of fixes years	4,4	4,6
South African debt years	4,9	5,6
USD debt years	3,7	4,1
Cost of funding %		
South African debt %	8,9	8,4
USD debt %	4,6	4,4
EUR debt %	1,7	

Fair value sensitivity analysis for fixed rate instruments

The group does not account for any fixed rate financial assets or financial liabilities at fair value through profit or loss, and the group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

Interest rate sensitivity analysis for variable rate instruments

The sensitivity analysis includes the exposure to interest rates for both derivatives and non-derivative instruments at the end of the financial year. For floating rate liabilities it is assumed that the liability outstanding at the end of the year was outstanding for the whole year.

Based on year-end floating debt, an interest rate increase/decrease of 150 basis points while all other variables are held constant, would decrease/increase the group's profit for the year ended 30 June 2016 by R27,3 million (2015: R5,6 million).

iii. Credit risk

Receivables

The group is exposed to credit risk due to trade receivables and loans receivable. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable. Save for national tenants, a deposit in the form of cash or bank guarantee is obtained from the tenant in terms of Hyprop's deposit policy. Furthermore, and only if required, a deed of suretyship will be obtained from a tenant.

The credit risk in respect of loans receivable is generally mitigated by agreements with the counterparty. These agreements include claims which provide legal protection for Hyprop which are common to such agreements.

Guarantees

The off-shore funding provided to Hystead and its subsidiaries has been supported by a guarantee from Hyprop. Hyprop has agreed to guarantee the due and functional performance of obligations in terms of a EUR205 million bridge loan agreement and to give certain undertakings to and in favour of FirstRand Bank Limited (acting through its Rand Merchant Bank division).

35. Financial instruments – Fair values and risk management continued

35.3 Financial risk management continued

iv. Liquidity risk

Liquidity risk is the risk that the group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the group's reputation.

This risk is minimised by holding cash balances and a floating loan facility. In addition, the company regularly monitors forecast cash flows and considers the matching of maturity profiles of financial assets and liabilities.

Exposure to liquidity risk

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, and include contractual interest payments and exclude the impact of netting agreements:

		Contractual cash flows			
	Carrying amount R000	Total contractual in-/(out) flows R000	One year or less R000	One to five years R000	More than five years R000
Non-derivative financial liabilities					
Long-term portion of interest-bearing borrowings	(8 632 036)	(9 237 368)		(9 237 368)	
Short-term portion of interest-bearing borrowings	(1 294 052)	(1 617 798)	(1 617 798)		
Payables	(434 060)	(434 060)	(434 060)		
	(10 360 148)	(11 289 226)	(2 051 858)	(9 237 368)	
Derivative financial liabilities*					
Interest rate swaps used for hedging	(101 198)	(244 985)	(49 328)	(195 657)	
Total	(10 461 346)	(11 534 211)	(2 101 186)	(9 433 025)	

** The inflows/(outflows) disclosed in the above table represent the contractual undiscounted cash flows relating to derivative financial liabilities held for risk management purposes. These derivative financial instruments are not usually closed out before contractual maturity. The disclosure shows net cash flow amounts for derivatives as they are net cash settled*

35. Financial instruments – Fair values and risk management continued

35.3 Financial risk management continued

v. Currency risk

The group is exposed to currency risk to the extent that there is a mismatch between the currencies in which revenue, operating costs and borrowings are denominated and the respective functional currencies of group companies. The primary functional currencies used by the group are the Rand, US Dollar and Euro. The group's investments in sub-Saharan Africa (excluding SA) exposes the group to US Dollar currency risk, while the group's investments in South-Eastern Europe exposes the group to Euro currency risk. Income earned from foreign operations is currently not hedged.

Currency exposure

The summary quantitative data about the group's exposure to currency risk as reported to the management of the group is as follows:

	June 2016			June 2015	
	USD	EUR	ZAR000 equivalent Total	USD*	ZAR000 equivalent Total
Loans receivable	220 564 705	897 756	3 273 289	183 926 879	2 258 125
Trade and other receivables	3 594 675	1 948 643	85 073	2 948	36
Cash and cash equivalents	365 694		5 403	754	9
Borrowings	(316 428 001)		(5 076 480)	(178 628 099)	(2 193 071)
Trade and other payables	(6 300 844)		(93 087)	(775 009)	(9 515)
Net exposure	(98 203 771)	2 846 399	1 805 802	4 527 473	55 584
Forward exchange contracts	(5 673 957)		(83 825)	(1 501 278)	(18 432)
Net exposure	(103 877 728)#	2 846 399	(1 889 627)#	3 026 195	37 152

 # Excludes the fair value of Ikeja City Mall, Lagos Nigeria, which is consolidated with investment property. Refer to note 2 – Investment Property.

Exchange rates

The following significant exchange rates have been applied:

	June 2016		June 2015	
	Average rate	Year-end spot	Average rate	Year-end spot
USD1	14,50	14,77	11,45	12,28
EUR1	16,97	16,40	*	*

Currency risk sensitivity analysis

A strengthening/(weakening) of the Euro and US Dollar against the Rand at 30 June would have affected the measurement of financial instruments denominated in a foreign currency and affected profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	June 2016	June 2015	June 2016 Profit or loss		June 2015 Profit or loss	
	Change vs ZAR	Change vs ZAR	Strengthening	Weakening	Strengthening	Weakening
USD1	10%	1%	(103 308)	103 308	372	(372)
EUR1	12%		5 419	(5 419)	*	*

	June 2016	June 2015	June 2016 Other comprehensive income	
	Change vs ZAR	Change vs ZAR	Strengthening	Weakening
USD1	10%	1%	(146)	146
EUR1	12%		**	**

**No comparative is shown for EUR as there was no EUR exposure in the prior year*
***No movement is shown due to the deferral of recognition of Hystead*