

NOTES TO THE SUMMARISED CONSOLIDATED ANNUAL FINANCIAL STATEMENTS – CONTINUED

for the year ended 30 June 2014

6. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair values of financial assets and liabilities carried at amortised cost

The following table sets out instances where the carrying amount of financial assets and financial liabilities, as recognised on the statement of financial position, differ from their fair values.

	Audited Carrying value Rm	Audited Fair value* Rm
2014		
Listed corporate bonds (included in interest-bearing borrowings)	5 837	5 830
Listed non-redeemable, non-participating preference shares	441	377

* Level 1 of the fair value hierarchy.

The fair values of the remainder of the group's financial assets and financial liabilities approximate their carrying values.

Fair value hierarchy

The group's financial instruments carried at fair value are classified in three categories defined as follows:

Level 1 financial instruments are those that are valued using unadjusted quoted prices in active markets for identical financial instruments.

Level 2 financial instruments are those valued using techniques based primarily on observable market data. Instruments in this category are valued using quoted prices for similar instruments or identical instruments in markets which are not considered to be active; or valuation techniques where all the inputs that have a significant effect on the valuation are directly or indirectly based on observable market data.

Level 3 financial instruments are those valued using techniques that incorporate information other than observable market data.

Instruments in this category have been valued using a valuation technique where at least one input, which could have a significant effect on the instrument's valuation, is not based on observable market data.

The following table presents the valuation categories used in determining the fair values of financial instruments carried at fair value:

		Audited		
	Total Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm
2014				
Financial assets carried at fair value				
<i>Fair valued through profit or loss</i>				
Investments held for trading (Included in Investments and loans)*	1 983	1 674	309	
<i>Fair valued through other comprehensive income</i>				
Available-for-sale investments (Included in Investments and loans)	209	209		
Foreign exchange contracts (Included in Trade and other receivables)	5		5	
Financial liabilities carried at fair value				
<i>Fair valued through profit or loss</i>				
Put option liability (Included in Other financial liabilities)	990			990
Contingent considerations (Included in Other financial liabilities)	92		10	82
Swap instruments (Included in Other financial liabilities)	199		199	
Foreign exchange contracts (Included in Trade and other payables)	47		47	

* The fair value gains on investments held for trading amounted to R188 million, of which R151 million was realised. The fair value gains on investment is included in Net operating expenses in profit or loss.

Investments classified as level 1 valued by quoted market prices in active markets consisted of listed equity securities. Instruments classified as level 2 use valuation techniques by observable inputs, which mainly short term deposits and over-the-counter (OTC) derivatives instruments.

Transfers between hierarchy levels

The group recognises transfers between levels of the fair value hierarchy as at the end of the reporting period during which the change occurred. There were no transfers between Level 1 and Level 2 fair value measurements. A short term fixed deposit, which was previously classified as level 3, has been reclassified to level 2. This is considered a more appropriate classification.

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Movements in level 3 financial instruments measured at fair value

The following tables shows a reconciliation of the opening and closing balances of level 3 financial instruments carried at fair value.

	Audited Unlisted investments Rm
Financial assets	
Balance at beginning of year	129
Disposals	(51)
Currency adjustments	10
Transfers to level 2	(88)

Carrying value at the end of the year – 2014

	Audited		
	Put option liability Rm	Contingent consideration Rm	Total Rm
Financial liabilities			
Balance at beginning of year		214	214
Initial recognition direct in equity	1 289		1 289
Reversed in equity on buy-out on non-controlling interest	(289)		(289)
Fair valued through profit or loss	16	(18)	(2)
Settlements		(39)	(39)
Currency adjustments	(26)	13	(13)
Transfers to level 2		(88)	(88)
Carrying value at the end of the year – 2014	990	82	1 072

Level 3 sensitivity information

The fair values of the level 3 financial liabilities of R1 072 million were estimated by applying an income approach valuation method including a present value discount technique. The fair value measure is based on significant inputs that are not observable in the market. The key assumption used in the valuations was the assumed probability of achieving profits targets. The assumed profitability was based on historical performances but adjusted for expected growth.

The following table shows how the fair value of the level 3 financial liabilities as at 30 June 2014 would change if the key assumption were to be replaced by a reasonable possible alternative.

Financial instruments	Valuation technique	Main assumption	Carrying value Rm	Decrease in liability Rm
Put option liability	Income approach	Earnings growth	990	(117)
Contingent consideration liabilities	Income approach	Assumed profits	82	(2)