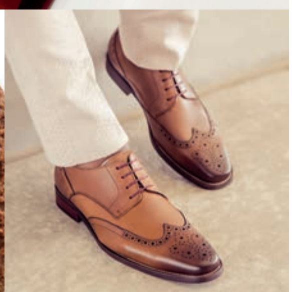
2018 COMPANY ANNUAL FINANCIAL STATEMENTS

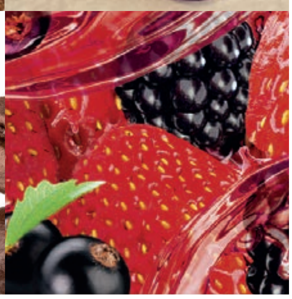
GROWING GREAT BRANDS

AVI LIMITED

ISIN: ZAE000049433 Share code: AVI
Registration number: 1944/017201/06
("AVI" or "the Group" or "the Company")

For more information, please visit our website:
www.avi.co.za





CONTENTS

The reports and statements set out below comprise the annual financial statements presented to the shareholders:

ANNUAL FINANCIAL STATEMENTS

The financial statements of AVI Limited have been audited in compliance with section 30 of the Companies Act No 71 of 2008, as amended, and have been prepared under the supervision of Owen Cressey, CA(SA), the AVI Group Chief Financial Officer.

These annual financial statements for the year ended 30 June 2018 were published on 10 September 2018.

DIRECTORS' RESPONSIBILITY STATEMENT

The directors are responsible for the preparation and fair presentation of the annual financial statements of AVI Limited, comprising the balance sheet at 30 June 2018, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and the Directors' Report.

The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management.

The directors have made an assessment of the Company's ability to continue as a going concern and have no reason to believe that the business will not be a going concern in the year ahead.

The auditor is responsible for reporting on whether the financial statements are fairly presented in accordance with the applicable financial reporting framework.

APPROVAL OF ANNUAL FINANCIAL STATEMENTS

The annual financial statements of AVI Limited, as identified in the first paragraph, were approved by the Board of directors on 7 September 2018 and are signed by

GR Tipper
Non-executive Chairman
Authorised director

SL Crutchley
Chief Executive Officer
Authorised director

CERTIFICATE OF THE COMPANY SECRETARY

In terms of section 88(2)(e) of the Companies Act No 71 of 2008, as amended, I certify that, to the best of my knowledge and belief, the Company has lodged with the Companies and Intellectual Property Commission for the financial year ended 30 June 2018, all such returns required of a public company in terms of the Companies Act No 71 of 2008, as amended, and that all such returns are true, correct and up to date.

S Scheepers
Company Secretary
Illovo, Johannesburg
7 September 2018

DIRECTORS' REPORT

The directors have pleasure in presenting their report for the year ended 30 June 2018.

Business of the Company

AVI Limited ("the Company"), which is registered and incorporated in the Republic of South Africa and listed on the JSE Limited ("JSE"), is a branded consumer products company. The Company registration number is 1944/017201/06. The Group comprises trading subsidiaries that manufacture, process, market and distribute branded consumer products in the food, beverage, footwear, apparel and cosmetics sectors.

Financial

The financial results and position of the Company are fully set out in the balance sheet, statement of comprehensive income, statement of cash flows and notes thereto.

Corporate activity

There have been no significant changes to investments during the year.

Share capital

Details of the Company's authorised and issued share capital are given in Note 8 to the financial statements.

A summary of the movement in the number of ordinary shares in issue during the year is given in Note 8 to the financial statements.

General authority for the Company to acquire its own shares

The directors consider that it will be advantageous for the Company to have a general authority to acquire its own shares. Such authority will be utilised if the directors consider that it is in the best interests of the Company and shareholders to effect such acquisitions having regard to prevailing circumstances and the cash resources of the Company at the appropriate time. Accordingly, shareholders will be asked to approve such general authority at the annual general meeting on 1 November 2018.

General authority for the Company to provide direct or indirect financial assistance to present or future subsidiaries

The directors consider that a general authority should be put in place to provide direct or indirect financial assistance to present or future subsidiaries and/or any other company or entity that is or becomes related or inter-related to the Company. Such authority will assist the Company, inter alia, in making inter-company loans to subsidiaries as well as granting letters of support and guarantees in appropriate circumstances. The existence of a general authority would avoid the need to refer each instance to shareholders for approval. This general authority would be valid up to and including the 2020 annual general meeting of the Company. Accordingly, shareholders will be asked to approve such general authority at the Annual General Meeting on 1 November 2018.

Dividends

Dividends, paid and proposed, are disclosed in Note 16 to the financial statements.

Directorate

Ms A Kawa resigned from the Board on 27 February 2018. There were no other changes to the Board during the year under review.

In terms of the Company's Memorandum of Incorporation, Messrs A Nühn, MJ Bosman and A Thebyane retire at the forthcoming Annual General Meeting. All the retiring directors, being eligible, offer themselves for re-election.

In terms of the Companies Act the appointments of Messrs MJ Bosman (Chairman), JR Hersov and Mrs NP Dongwana, to the Audit and Risk Committee need to be approved at the forthcoming Annual General Meeting.

Directors' service contracts

Standard terms and conditions of employment apply to executive directors, which, inter alia, provide for notice of termination of three months. Non-executive directors conclude service contracts with the Company on appointment. Their term of office is governed by the Memorandum of Incorporation which provides that one-third of the aggregate number of directors will retire by rotation at each Annual General Meeting, but retiring directors may, if eligible, offer themselves for re-election.

Share schemes

Particulars of the Company's various share incentive schemes are set out in Note 8.

Directors' interests

The interests of the directors in the issued listed securities of the Company, being ordinary shares of 5 cents each, as at 30 June 2018 and 30 June 2017, are as follows:

	Direct number	Beneficial indirect number	% of total
At 30 June 2018			
SL Crutchley	**800 000**	**–**	**0,23**
OP Cressey	**5 000**	**–**	**0,00**
M Koursaris	**82 500**	**–**	**0,02**
Total	**887 500**	**–**	**0,25**
At 30 June 2017			
SL Crutchley	800 000	–	0,23
OP Cressey	5 000	–	0,00
M Koursaris	82 500	–	0,02
Total	887 500	–	0,25

There has been no change in the directors' interests reflected above since the reporting date.

Material shareholders

The Company does not have a holding company.

Ordinary shares

The beneficial holders of 3% or more of the issued ordinary shares of the Company at 30 June 2018, according to the information available to the directors, were:

	Number of ordinary shares	%
Government Employees Pension Fund	**51 381 827**	**14,61**
AVI Investment Services Proprietary Limited	**17 234 352**	**4,90**
JP Morgan Asset Management	**11 134 992**	**3,17**
Vanguard Investment Management	**10 562 638**	**3,09**

Special resolutions passed by the Company and registered by the Registrar of Companies

The following special resolutions have been passed by the Company since the previous directors' report dated 8 September 2017, to the date of this report:

- To approve the fees payable to the current non-executive directors, excluding the Chairman of the Board and the foreign non-executive director.
- To approve the fees payable to the Chairman of the Board.
- To approve the fees payable to the foreign non-executive director.
- To approve the fees payable to the members of the Remuneration, Nomination and Appointments Committee, excluding the Chairman of the committee.
- To approve the fees payable to the members of the Audit and Risk Committee, excluding the Chairman of the committee.
- To approve the fees payable to the members of the Social and Ethics Committee, excluding the Chairman of the committee.
- To approve the fees payable to the Chairman of the Remuneration, Nomination and Appointments Committee.
- To approve the fees payable to the Chairman of the Audit and Risk Committee.
- To approve the fees payable to the Chairman of the Social and Ethics Committee.
- To authorise, by way of a general approval, the Company or any of its subsidiaries to acquire ordinary shares issued by the Company, in terms of the Companies Act and Listings Requirements of the JSE.

Post reporting date events

No significant events that meet the requirements of IAS 10 have occurred since the reporting date.

AUDIT COMMITTEE REPORT

The Audit Committee is pleased to present its report for the financial year ended 30 June 2018 in terms of section 94(7)(f) of the Companies Act No 71 of 2008, as amended ("the Companies Act").

The Audit Committee has adopted formal terms of reference, delegated to it by the Board of directors, as its charter. The charter is in line with the Companies Act, the King IV Report on Corporate Governance for South Africa 2016 ("King IV") and the JSE Listings Requirements. The Committee has discharged the functions delegated to it in terms of its charter. The Audit Committee's process is supported by the operating subsidiary companies which have internal review committees that monitor risk management and compliance activities. There is a formal reporting line from the various internal review committees into the Audit Committee via the Group's Chief Financial Officer.

During the year under review the Committee performed the following statutory duties:

1. Reviewed and recommended for adoption by the Board such financial information as is publicly disclosed which for the year included:
   - The interim results for the six months ended 31 December 2017; and
   - The annual financial statements for the year ended 30 June 2018.
2. Considered and satisfied itself that the external auditors are independent.
3. Recommended to the Board the termination of KPMG Inc. as external auditors on 30 November 2017 and the appointment of Ernst & Young Inc. as new external auditors on 30 January 2018.
4. Approved the external auditors' budgeted fees and terms of engagement for the 2018 financial year.
5. Determined the non-audit related services which the external auditors were permitted to provide to AVI and reviewed the policy for the use of the external auditors for non-audit related services. All non-audit related service agreements between the AVI Group and the external auditors were pre-approved.
6. Resolved to appoint Ernst & Young Inc. to perform the Group internal audit function until their appointment as external auditors on 30 January 2018.
7. Resolved to appoint Grant Thornton PS Advisory Proprietary Limited to perform the Group internal audit function from 1 July 2018.
8. Reviewed the Audit Committee charter in line with King IV recommendations.
9. Reviewed the internal audit charter in line with King IV recommendations.
10. Confirmed the internal audit plan for the 2018 financial year.
11. Reviewed the IT governance structure for the AVI Group.
12. Confirmed that adequate whistle-blowing facilities were in place throughout the AVI Group and reviewed and considered actions taken with regard to incident reports.
13. Held separate meetings with management, the external and internal auditors to discuss any problems and reservations arising from the year end audit and other matters that they wished to discuss.
14. Noted that it had not received any complaints, either from within or outside the Company, relating either to the accounting practices, the internal audits, the content or auditing of the financial statements, the internal financial controls or any other related matter.
15. Conducted a self-evaluation exercise into its effectiveness.
16. Recommended to the Board the re-appointment of Ernst & Young Inc. as the external auditors and Mrs P Wittstock as the registered auditor responsible for the audit for the year ending 30 June 2019, which will be considered at the forthcoming Annual General Meeting.
17. Evaluated and satisfied itself as to the appropriateness of the expertise and experience of the Company's financial director.
18. Satisfied itself as to the expertise, resources and experience of the Company's finance function.

On behalf of the Audit Committee

MJ Bosman
Audit Committee Chairman
7 September 2018

INDEPENDENT AUDITORs' REPORT

To the shareholders of AVI Limited

Opinion

We have audited the separate financial statements of AVI Limited ("the Group") set out on pages 9 to 36, which comprise the separate balance sheet as at 30 June 2018, and the separate statement of comprehensive income, the separate statement of changes in equity and the separate statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the Company's financial statements present fairly, in all material respects, the Company's financial position as at 30 June 2018, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the auditors' responsibilities for the audit of the separate financial statements section of our report. We are independent of the Group in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors ("IRBA Code"), the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants ("IESBA Code") and other independence requirements applicable to performing the audit of the Company. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code, IESBA Code, and in accordance with other ethical requirements applicable to performing the audit of AVI Limited. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the separate financial statements of the current year. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the auditors' responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

To the shareholders of AVI Limited (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of investments in subsidiaries Management performs an annual impairment test on the recoverability of the carrying amounts of investments where impairment indicators exist as required by IAS 36 – *Impairment of Assets*, which is subjective in nature due to judgements having to be made of future performance. In performing the annual assessment of impairment as required by IAS 36, it was noted that the Green Cross investment was impaired by R105,7 million. As disclosed in Note 1 (Investments in subsidiaries) to the annual financial statements, the Company uses a discounted cash flow model to determine the value in use for each cash-generating unit, on the basis of the following key assumptions: • revenue and profit growth; • discount rates; and • growth rate used to extrapolate cash flows beyond the budget period. The impairment assessment of the Green Cross investment is considered to be a key audit matter due to the fact that the calculation of the recoverable amount requires the use of estimates and assumptions concerning the future cash flows which at this time are inherently uncertain and could change over time. There was specific audit focus on the impairment calculation of Green Cross due to the current performance of this cash-generating unit. Refer to Note 1 – Investments in subsidiaries.	Our audit procedures included, amongst others: • We evaluated Green Cross as a cash-generating unit; • We involved EY internal valuation specialists to assist in evaluating management's key assumptions used in the impairment calculations; • We performed sensitivity analyses around the key assumptions used in the impairment model; • We compared the cash flow forecasts to approved budgets and other relevant market and economic information, as well as testing the underlying calculations; and • We assessed the disclosure relating to Investments in terms of IAS 36.

Other information

The directors are responsible for the other information. The other information comprises the Directors' Report, the Audit Committee's Report and the Certificate of the Company Secretary as required by the Companies Act of South Africa, which we obtained prior to the date of this report. Other information does not include the separate financial statements and our auditors' report thereon.

Our opinion on the separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. When we read the Integrated Annual Report, the Operational reviews, the Financial Review, the Sustainable Development Report, the Corporate Governance Report, and the Remuneration Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of the directors for the separate financial statements

The directors are responsible for the preparation and fair presentation of the separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the separate financial statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate to them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that Ernst & Young Inc. has been the auditor of AVI Limited for less than one year.

Ernst & Young Inc.

Ernst & Young Inc.

Director – Penelope Wittstock
Registered Auditor
Chartered Accountant (SA)
102 Rivonia Road, Sandton

7 September 2018

ACCOUNTING POLICIES

AVI Limited ("the Company") is a South African registered company. These are the Company's separate financial statements. The consolidated financial statements are available at the Company's registered office or on the AVI website www.avi.co.za.

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), in compliance with the JSE Listings requirements, the interpretations adopted by the International Accounting Standards Board ("IASB"), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, and the requirements of the Companies Act of South Africa. The financial statements were approved for issue by the Board of directors on 7 September 2018.

Basis of preparation

These financial statements are prepared in millions of South African Rand ("Rm"), which is the Company's functional currency, on a historical cost basis, except for derivative financial assets and liabilities which are stated at their fair value.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that may affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision only affects that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, information about areas of estimation and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes:
Note 1, 2 – estimation of recoverable amount of investments in subsidiaries
Note 8 – valuation of incentive scheme options
Note 18 – valuation of derivative financial instruments

The accounting policies set out below have been applied consistently to the periods presented in these financial statements.

Adoption of new and revised accounting standards

There are no new revised or amended accounting standards effective from 1 July 2017 applicable to the Company.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash balances on hand, deposits held on call with banks, net of overdrafts forming part of the Company's cash management, all of which are available for use by the Company unless otherwise stated. Cash and cash equivalents are measured at amortised cost.

Dividends payable

Dividends payable are recognised in the period in which such dividends are declared.

Share-based payment transactions

Transactions in which a parent grants rights to its own equity instruments directly to the employees of its subsidiaries are classified as equity settled in the financial statements of the parent.

The parent recognises in equity the equity-settled share-based payment and recognises a corresponding increase in the investment in subsidiary.

Equity-settled

The equity-settled share-based payment is measured at fair value at grant date and recognised over the period during which the employee becomes unconditionally entitled to the equity instruments. The fair value of the instruments granted is measured using generally accepted valuation techniques, taking into account the terms and conditions upon which the instruments are granted. The amount recognised is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to market conditions not being met.

Group share scheme recharge arrangements

A recharge arrangement exists whereby the cost to the scheme of acquiring shares issued in accordance with certain share schemes granted by the Company is funded by way of contributions from employer companies in respect of participants who are their employees. The recharge arrangement is accounted for separately from the underlying equity-settled share-based payment upon initial recognition, as follows:

- The subsidiary recognises a recharge liability at fair value, determined using generally accepted valuation techniques, and a corresponding adjustment against equity for the capital contribution recognised in respect of the share-based payment.
- The parent recognises a corresponding recharge asset at fair value and a corresponding adjustment to the carrying amount of the investment in the subsidiary.

Subsequent to initial recognition the recharge arrangement is remeasured at fair value (as an adjustment to the net capital contribution) at each subsequent reporting date until settlement date to the extent vested. Where the recharge amount recognised is greater than the initial capital contribution recognised by the subsidiary in respect of the share-based payment, the excess is recognised as a net capital distribution to the parent in equity. The amount of the recharge in excess of the capital contribution, recognised by the parent as an increase in the investment in subsidiary, is recognised as an adjustment to the net capital contribution through a reduction in the net investment in the subsidiary.

Financial instruments

Measurement

Financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs when the Company becomes a party to the contractual arrangements. Subsequent to initial recognition these instruments are measured as detailed below:

Financial assets

Financial assets are recognised when the Company has rights to cash or another financial asset. Such assets consist of cash and cash equivalents, a contractual right to receive cash or another financial asset or a contractual right to exchange financial instruments with another entity on potentially favourable terms.

Investments

Investments held for trading are classified as current assets and are stated at fair value, with any resultant gain or loss recognised in profit or loss.

Other investments held by the Company are classified as loans and receivables and measured at amortised cost. Where these investments are interest bearing, interest calculated using the effective interest method is recognised in profit or loss.

On-charge receivables

On-charge receivables are measured at fair value.

Other receivables

Other receivables are stated at amortised cost, using the effective interest method, less impairment losses.

Cash and cash equivalents

Cash and cash equivalents are initially measured at fair value, and subsequently at amortised cost. Due to their short-term nature, amortised cost approximates fair value.

Financial liabilities

Financial liabilities are recognised when there is a contractual obligation to deliver cash or another financial asset or to exchange financial instruments with another entity on potentially unfavourable terms. Financial liabilities other than derivative instruments are measured at amortised cost using the effective interest method.

Interest-bearing borrowings

Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings using the effective interest method.

Other payables

Other payables are stated at amortised cost using the effective interest method.

ACCOUNTING POLICIES continued

Offset

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when the Company has a legally enforceable right to set off the recognised amounts, and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Derivative instruments

Derivative financial instruments relate to black economic empowerment transactions. The Company does not hold or issue derivative financial instruments for trading purposes.

Subsequent to initial recognition, derivative instruments are measured at fair value through profit or loss. Fair value is determined based on the most appropriate valuation technique.

Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of derivative financial instruments are recognised in profit or loss in the year in which the change occurs.

Derecognition

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Impairment of non-financial assets

The carrying amounts of the Company's assets other than financial assets which are separately assessed and provided against where necessary, are reviewed at each reporting date to determine whether there is any indication of impairment. If there is any indication that an asset may be impaired, its recoverable amount is estimated. An asset's recoverable amount is the higher of an asset's or related cash-generating unit's fair value less costs of disposal and its value in use.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised, and when the indication of impairment no longer exists.

Impairment of financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an impaired available-for-sale financial asset accumulated in equity is transferred to profit or loss on disposal.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised for financial assets measured at amortised cost and available-for-sale financial assets that are debt securities and the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in other comprehensive income.

Recognition of revenue

Dividends

Dividends are recognised when the right to receive payment is established, with the exception of dividends on cumulative preference share investments, which are recognised on a time proportion basis in the period to which they relate.

Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Preference share capital

Preference share capital is classified as equity if it is non-redeemable and any dividends are discretionary, or is redeemable but only at the Company's option. Dividends on preference share capital classified as equity are recognised as distributions within equity.

Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders and if dividend payments are not discretionary. Dividends thereon are recognised in profit or loss as an interest expense.

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, net of any tax effects, is recognised as a change in equity. Repurchased shares held by subsidiaries are classified as treasury shares and presented as a deduction from total equity. The consideration received when own shares held by the Company are re-issued is presented as a change in equity and no profit or loss is recorded.

Where loans advanced by the Company to a subsidiary to acquire treasury shares are to be repaid principally by the buy back of such shares, the loan is classified as an equity instrument by the Company.

Investment in subsidiary companies

Investments in subsidiary companies are stated at cost, less impairment allowances.

Capital items

Capital items are items of income and expense relating to the acquisition, disposal or impairment of investments and, businesses.

Taxation

Taxation on the profit or loss for the year comprises current and deferred taxation. Taxation is recognised in profit or loss except to the extent that it relates to a business combination or items recognised directly in other comprehensive income or equity.

Current taxation

Current taxation comprises tax payable calculated on the basis of the estimated taxable income for the year, using the tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable for previous years.

Deferred taxation

Deferred taxation is provided using the liability method based on temporary differences. Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base. The amount of deferred taxation provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at the reporting date.

Deferred taxation is charged to profit or loss except to the extent that it relates to a transaction that is recognised directly in other comprehensive income or equity, in which case it is recognised in other comprehensive income or equity. The effect on deferred taxation of any changes in tax rates is recognised in profit or loss, except to the extent that it relates to items previously charged or credited directly to other comprehensive income or equity.

A deferred taxation asset is recognised to the extent that it is probable that future taxable profits will be available against which the associated unused tax losses and deductible temporary differences can be utilised. Deferred taxation assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Dividend Withholding Tax

Dividend Withholding Tax is a tax on shareholders receiving dividends and is applicable to all dividends declared on or after 1 April 2012. The Company withholds dividend tax on behalf of its shareholders at a rate of 20% effective from 22 February 2017 and 15% before 22 February 2017 on dividends declared. Amounts withheld are not recognised as part of the Company's tax charge but rather as part of the dividend paid, recognised directly in equity.

Where withholding tax is withheld on dividends received, the dividend is recognised at the gross amount with the related withholding tax recognised as part of the tax expense unless it is otherwise reimbursable in which case it is recognised as an asset.

ACCOUNTING POLICIES continued

New standards and interpretations in issue not yet effective

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 30 June 2018. These include the following standards and interpretations and amendments to standards that are applicable to the business of the Company, and have not been applied in preparing these financial statements:

IFRS 9 – *Financial Instruments*
IFRS 9 addresses the accounting principles for the financial reporting of financial assets and financial liabilities, including classification, measurement, impairment and derecognition. IFRS 9 replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 – *Financial Instruments: Recognition and Measurement.*

The standard is mandatory for accounting periods beginning on 1 January 2018 and will therefore be adopted by AVI for the year ended 30 June 2019. The Company is planning to apply the standard retrospectively as at 1 July 2018, however with no restatement of comparative information for prior years.

IFRS 9 replaces the current IAS 39 categories of financial assets with three principle classification categories – measured at amortised cost, fair value through other comprehensive income and fair value through profit and loss. Financial assets held by the Company have been assessed, considering contractual cash flow characteristics and the entity's business model for managing financial assets. Based on the assessment, there will be no significant impact on the measurement of financial assets as a result of the adoption of IFRS 9.

IFRS 9 replaces the "incurred loss" model of IAS 39 with a forward looking "expected credit loss" model to measure impairment losses on financial assets. Financial assets to which the new impairment model applies have been assessed, with no impact expected on adoption of IFRS 9.

Non-applicable standards, amendments and interpretations

The other remaining standards, amendments and interpretations issued but not yet effective have been assessed for applicability to the Company and management has concluded that they are not applicable to the business of the Company and will therefore have no impact on future financial statements.

BALANCE SHEET

As at 30 June 2018	Notes	2018 R'm	2017 R'm
ASSETS			
Non-current assets			
Investments in subsidiaries	1, 2	**1 869,0**	1 950,7
Other investments	3	**174,6**	174,5
Group share scheme recharge receivable	4	**48,2**	18,3
Other long-term assets including derivatives	5	**330,4**	219,1
		2 422,2	2 362,6
Current assets			
Other receivables	6	**118,8**	188,5
Cash and cash equivalents	7	**1 109,9**	782,8
		1 228,7	971,3
Total assets		**3 650,9**	3 333,9
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	8	**17,6**	17,5
Share premium	8	**697,4**	629,0
Reserves	9	**242,8**	205,6
Retained earnings		**2 663,6**	2 461,7
Total equity		**3 621,4**	3 313,8
Current liabilities			
Other payables	10	**29,5**	20,1
Total equity and liabilities		**3 650,9**	3 333,9

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2018	Notes	2018 R'm	2017 R'm
Revenue	11	**1 745,5**	1 347,0
Other income		**46,3**	6,2
Other expenses		**–**	(22,1)
Operating expenses		**(13,0)**	(9,5)
Operating profit	12	**1 778,8**	1 321,6
Finance costs	13	**(1,2)**	(1,4)
Capital items	1	**(105,7)**	(130,5)
Profit for the year		**1 671,9**	1 189,7
Taxation		**–**	–
Total comprehensive income for the year		**1 671,9**	1 189,7

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2018	Share capital and premium R'm	Reserves R'm	Retained earnings R'm	Total R'm
Balance at beginning of year	**646,5**	**205,6**	**2 461,7**	**3 313,8**
Total comprehensive income for the year				
Profit for the year	–	–	1 671,9	1 671,9
Transactions with owners recorded directly in equity				
Contributions by and distributions to owners				
Share-based payments	–	37,2	–	37,2
Dividends paid	–	–	(1 470,0)	(1 470,0)
Issue of ordinary shares	68,5	–	–	68,5
Total contributions by and distributions to owners	**68,5**	**37,2**	**(1 470,0)**	**(1 364,3)**
Balance at end of year	**715,0**	**242,8**	**2 663,6**	**3 621,4**

For the year ended 30 June 2017	Share capital and premium R'm	Reserves R'm	Retained earnings R'm	Total R'm
Balance at beginning of year	420,3	177,8	2 606,7	3 204,8
Total comprehensive income for the year				
Profit for the year	–	–	1 189,7	1 189,7
Transactions with owners recorded directly in equity				
Contributions by and distributions to owners				
Share-based payments	–	27,8	–	27,8
Dividends paid	–	–	(1 334,7)	(1 334,7)
Issue of ordinary shares	226,2	–	–	226,2
Total contributions by and distributions to owners	226,2	27,8	(1 334,7)	(1 080,7)
Balance at end of year	646,5	205,6	2 461,7	3 313,8

STATEMENT OF CASH FLOWS

For the year ended 30 June 2018	Notes	2018 R'm	2017 R'm
Cash flows from operating activities			
Cash generated by operations	14	**1 795,0**	1 220,9
Interest paid	13	**(1,2)**	(1,4)
Net cash available from operating activities		**1 793,8**	1 219,5
Cash flows from investing activities			
Increase in amounts owing by subsidiary companies		**(0,2)**	(24,9)
Net cash utilised in investing activities		**(0,2)**	(24,9)
Cash flows from financing activities			
Proceeds on issue of shares	15	**68,5**	226,2
Payment to I&J BBBEE shareholders	18	**(65,0)**	–
Dividends paid	16	**(1 470,0)**	(1 334,7)
Net cash utilised in financing activities		**(1 466,5)**	(1 108,5)
Increase in cash and cash equivalents		**327,1**	86,1
Cash and cash equivalents at beginning of year		**782,8**	696,7
Cash and cash equivalents at end of year		**1 109,9**	782,8

		2018 R'm	2017 R'm
1.	**Investments in subsidiaries**		
	Unlisted – shares in owned subsidiaries	**1 448,5**	1 448,5
	Borrowings by subsidiary companies	**546,2**	546,0
		1 994,7	1 994,5
	Share-based payments capitalised	**141,7**	117,9
	Impairment allowance	**(267,4)**	(161,7)
	Total investments in subsidiaries	**1 869,0**	1 950,7
	Impairment allowance		
	Balance at beginning of year	**(161,7)**	(31,2)
	Impairment loss recognised	**(105,7)**	(130,5)
	Balance at end of year	**(267,4)**	(161,7)

Investments in subsidiary companies are stated at cost, less impairment allowances. The carrying amounts of the Company's investments in subsidiaries are reviewed at each reporting date to determine whether there is any indication of impairment. If there is any indication that an asset may be impaired, its recoverable amount is estimated.

The Green Cross business was acquired on 1 March 2012. An impairment loss of R130,5 million recognised in the prior year, and a further impairment loss of R105,7 million has been recognised in the current year, in consideration of the extended period it will take to return the business to acceptable profitability from the current base.

The recoverable amount has been calculated as value in use using a discounted cash flow model, based on forecast profits of the business discounted at an appropriate discount rate. Revenue and profit growth assumptions are based on the approved budget and specific growth plans for the business, taking into account the economic environment in which Green Cross operates.

The recoverable amount of the Green Cross business is its value in use and has been determined as R285 million (2017: R438 million) discounting future cash flows at 16,9%. This value is based on forecast improvements in profits and working capital in line with management plans in progress.

2. Principal subsidiary companies

		Issued permanent capital[1]		Effective percentage holding		Shares at book value		Indebtedness to the Company[2]	
Name of company and nature of business	Class	**2018 R'm**	2017 R'm	**2018 %**	2017 %	**2018 R'm**	2017 R'm	**2018 R'm**	2017 R'm
A&D Spitz Proprietary Limited Retailer of branded shoes and fashion accessories	Ord	**–**	–	**100**	100	**576,6**	576,6	**–**	–
AVI Investment Services Proprietary Limited Investment company	Ord	**–**	–	**100**	100	**–**	–	**300,3**	300,1
Green Cross Manufacturers Proprietary Limited Producer and retailer of branded shoes and footwear accessories	Ord	**–**	–	**100**	100	**305,0**	305,0	**90,8**	90,8
Hampton Sportswear Proprietary Limited Retailer of branded apparel	Ord	**–**	–	**100**	100	**20,7**	20,7	**–**	–
Irvin & Johnson Holding Company Proprietary Limited International integrated fishing, processing and marketing of branded value-added fish and seafood products	Ord	**–**	–	**75**	75	**319,1**	319,1	**–**	–
Indigo Brands Proprietary Limited Manufacturers, marketers and distributors of cosmetics, fragrances and toiletries	Ord	**–**	–	**100**	100	**–**	–	**124,0**	124,0
National Brands Limited Manufacturers and marketers of branded food and beverage products	Ord	**3,5**	3,5	**100**	100	**227,1**	227,1	**–**	–
Nina Roche Shoe Collection Proprietary Limited Retailer of branded shoes and fashion accessories	Ord	**–**	–	**100**	100	**–**	–	**31,1**	31,1
						1 448,5	1 448,5	**546,2**	546,0
Impairment allowance									
– Green Cross (Note 1)						**(236,2)**	(130,5)	**–**	–
– Nina Roche						**(0,1)**	(0,1)	**(31,1)**	(31,1)
Share-based payments capitalised						**141,7**	117,9	**–**	–
						1 353,9	1 435,8	**515,1**	514,9

All companies are incorporated in South Africa.

[1] *Where Rand amount is less than R1 million*
[2] *The loans are interest free and have no fixed repayment terms, and the Company has no intention to recall these loans within the next 12 months*

3. Other investments

	Shares held		Effective percentage holding		Book value of investment	
	2018 number	2017 number	**2018 %**	2017 %	**2018 R'm**	2017 R'm
Name of company and nature of business						
Main Street 198 Proprietary Limited						
– Cumulative redeemable convertible "A" preference shares	**800**	800	**100**	100	**159,3**	159,2
I&J Black Staff Holding Company Proprietary Limited						
– Cumulative redeemable preference shares	**50 000**	50 000	**100**	100	**15,3**	15,3
					174,6	175,5

The 25% black empowerment shareholding in I&J is held by two investment nominee companies (Note 18). AVI has subscribed for preference shares in Main Street 198 Proprietary Limited and I&J Black Staff Holding Company Proprietary Limited (collectively referred to as "the empowerment consortia"), the investment nominee companies owned by these empowerment investors, to fund the acquisition of the I&J shares. The net preference share investment represents the original subscription price plus arrear preference dividends, less a capping allowance, if applicable, to limit the recognition of preference dividend income to the equivalent attributable earnings of I&J.

None of the investments are listed on a stock exchange.

4. Group share scheme recharge receivable

Equity instruments granted under the AVI Out-Performance Scheme, the AVI Deferred Bonus Share Plan and the Revised AVI Executive Share Incentive Scheme are all subject to a recharge arrangement with participating subsidiaries upon exercise of options by employees of those companies. Refer Note 8 for details of share incentive schemes.

The Group recharge receivable has been accounted for as follows:

	2018 R'm	2017 R'm
Group share scheme recharge receivable at fair value	**92,6**	79,3
Less: short-term portion reflected in other receivables (Note 6)	**(44,4)**	(61,0)
Long-term portion of receivable at fair value	**48,2**	18,3
The AVI Out-Performance Scheme		
Share price	**R108,20**	R95,00
Terms (years)	**0,25-2,25**	0,25 – 2,25
Expected vesting percentage based on Total Shareholder Return ("TSR") performances	**50th – 70th**	50th – 90th
Vesting multiple based on relative TSR performance	**0,9 – 1,8**	0,5 – 3,0
Number of outstanding options (number)	**736 871**	698 087
The AVI Deferred Bonus Share Plan		
Award price	**R97,55**	R88,59
The Revised Executive Share Incentive Scheme		
Share price	**R108,20**	R95,00
Award price	**R97,77 – R108,73**	R94,07 – R101,79

		2018 R'm	2017 R'm
5.	**Other long-term assets including derivatives**		
	On-charge receivable from subsidiary (Note 19)	52,5	43,6
	Call option asset (Note 18)	277,9	175,5
		330,4	219,1
6.	**Other receivables**		
	Short-term portion of Group share scheme recharge receivable (Note 4)	44,4	61,0
	Loan receivable from subsidiary (Note 19)	74,4	127,5
		118,8	188,5
7.	**Cash and cash equivalents**		
	AVI Group Treasury call deposit	1 109,6	782,8
	Bank balances	0,3	–
		1 109,9	782,8
	The AVI Group Treasury call deposit is interest free and receivable on demand.		
8.	**Share capital and premium**		
	Share capital		
	Authorised		
	Ordinary share capital		
	960 000 000 (2017: 960 000 000) ordinary shares of 5 cents each	48,0	48,0
	Preference share capital		
	10 000 000 (2017: 10 000 000)	2,0	2,0
	Total authorised share capital	50,0	50,0
	Issued		
	351 673 245 (2017: 350 799 039) ordinary shares of 5 cents each	17,6	17,5
	Total issued share capital	17,6	17,5
	Share premium		
	Balance at beginning of year	629,0	402,9
	Premium on issue of ordinary shares	68,4	60,2
	Premium on issue of ordinary shares to Company's share trusts	–	165,9
	Balance at end of year	697,4	629,0
	Total issued share capital and premium	715,0	646,5

8. Share capital and premium continued

Share incentive schemes

The AVI Group's share incentive schemes together with a summary of the movements in the respective share incentive instruments are set out in the tables below.

The AVI Executive Share Incentive Scheme

Eligible participants are awarded share options which vest after the completion of a three year service period. Upon vesting, participants are entitled to exercise their options by receiving AVI shares equal to the number of options awarded subject to the settlement of the exercise price (equal to the award price) by the participant.

Date of award	Award price (exercise price) R	Instruments outstanding at 30 June 2017 number	Awarded number	Exercised number	Relinquished number	**Instruments outstanding at 30 June 2018 number**
1 April 2013	55,88	192 635	–	(192 635)	–	**–**
1 October 2013	58,50	5 295	–	(5 295)	–	**–**
1 April 2014	53,38	306 846	–	(217 596)	–	**89 250**
1 October 2014	67,47	297 116	–	(288 406)	–	**8 710**
1 April 2015	84,45	370 353	–	(36 616)	(17 491)	**316 246**
1 October 2015	82,67	260 747	–	(17 620)	(18 885)	**224 242**
1 April 2016	83,06	550 081	–	(4 096)	(19 537)	**526 448**
		1 983 073	–	(762 264)	(55 913)	**1 164 896**
Weighted average award price (R)		73,63	–	61,71	83,36	**80,97**
Weighted average share price on date of exercise (R)				103,00		

The weighted average remaining contractual life of instruments outstanding as at 30 June 2018 is 0,4 years (2017: 0,8 years).

The options are available to be exercised in their entirety in all cases three years after the effective date of granting of awards. Any options not exercised on the fifth anniversary of such date will lapse. Exercises in any period prior to vesting in the third year represent the portion allowed to be exercised on retirement, death, disability or retrenchment.

The scheme was replaced by the Revised AVI Executive Share Incentive Scheme in November 2016 with no further allocations since.

The Revised AVI Executive Share Incentive Scheme

The Revised AVI Executive Share Incentive Scheme was approved by shareholders at the Annual General Meeting held on 3 November 2016 and replaced the AVI Executive Share Incentive Scheme. Eligible participants are awarded share appreciation rights which vest after the completion of a three year service period, subject to the satisfaction of a performance condition, namely that the AVI return on capital employed over the period exceeds the weighted average cost of capital. Upon vesting, participants are entitled to exercise their awards by receiving AVI shares equal to the increase in value of their awards between award date and exercise date. The cost of these AVI shares is funded by way of contributions from employer companies in respect of participants who are their employees.

Date of award	Award price per instrument R	Instruments outstanding at 30 June 2017 number	Awarded number	Exercised number	Relinquished number	**Instruments outstanding at 30 June 2018 number**
23 November 2016	94,07	267 029	–	(11 188)	(22 189)	**233 652**
1 April 2017	101,79	684 744	–	–	(138 915)	**545 829**
1 October 2017	97,77	–	352 532	(2 899)	(55 972)	**293 661**
1 April 2018	108,73	–	612 712	–	–	**621 715**
		951 773	974 244	(14 087)	(217 076)	**1 694 854**
Weighted average award price (R)		99,62	104,76	94,83	99,96	**102,57**
Weighted average share price on date of exercise (R)				109,47		

The weighted average remaining contractual life of instruments outstanding as at 30 June 2018 is 2,1 years (2017: 2,6 years).

The share appreciation rights are available to be exercised in their entirety three years after the effective date of granting of awards, subject to the performance condition being met. Any rights not exercised on the fifth anniversary of such date will lapse. Exercises in any period prior to vesting in the third year represent the portion allowed to be exercised on retirement, death, disability or retrenchment.

8. Share capital and premium continued

The AVI Deferred Bonus Share Plan

The Deferred Bonus Share Plan was approved by shareholders at the Annual General Meeting held on 3 November 2016. The value of the awards allocated is determined with reference to each eligible participant's annual bonus (earned under the Group's short-term bonus incentive framework). A portion of the annual bonus is paid in cash while the deferred element is settled in equity as AVI shares and is subject to a three year service period before vesting, during which period the bonus shares remain restricted. These shares are held by an escrow agent on behalf of participants over this vesting period. Participants are eligible to receive dividends and vote at shareholder meetings.

Date of award	Award price per instrument R	Instruments outstanding at 30 June 2017 number	Awarded number	Exercised number	Relinquished number	**Instruments outstanding at 30 June 2018 number**
18 November 2016	88,59	310 876	–	(1 470)	(5 659)	**303 747**
1 October 2017	97,55	–	174 960	(115)	(3 600)	**171 245**
		310 876	174 960	(1 585)	(9 259)	**474 992**
Weighted average award price (R)		88,59	97,55	89,24	92,07	**91,82**
Weighted average share price on date of exercise (R)				104,47		

The weighted average remaining contractual life of instruments outstanding as at 30 June 2018 is 1,6 years (2017: 2,2 years).

Upon vesting, the shares become unrestricted in the hands of participants. The cost of the AVI shares is funded by way of contributions from employer companies in respect of participants who are their employees.

The vesting of shares prior to the completion of the three-year restriction period represents the portion allowed to vest on retirement, death, disability or retrenchment.

The AVI Out-Performance Scheme

Eligible participants are awarded notional shares which vest after the completion of a three year service period, and are converted to AVI shares subject to AVI's performance against an identified peer group over the vesting period.

The scheme is based on a Total Shareholder Return ("TSR") measure. TSR is the increase in value of shares after the notional reinvestment of all distributions. Allocations of notional shares are made in conjunction with the identification of the peer group against which that tranche will be measured.

At the measurement date in respect of each tranche:
- AVI's TSR and the TSR of each peer in the peer group for that tranche will be determined;
- the TSR of each peer in the peer group will be ranked in ascending order in 10 performance deciles; and
- depending on the peer group decile within which AVI's TSR will be ranked, a vesting multiple of between 0 times and 3,6 times will be applied to the notional shares to determine the number of shares allocated to the participant upon vesting. No shares vest if AVI's TSR is ranked below the 50th peer group percentile.

Upon vesting, each participant will receive the AVI shares due to them. The cost of the AVI shares is funded by way of contributions from employer companies in respect of participants who are their employees.

As the allocation of awards is a notional allocation, the notional shares so allocated will not attract any dividends or voting rights in the hands of participants until vested.

8. Share capital and premium continued

The AVI Out-Performance Scheme continued

Date of award	Award price per instrument R	Instruments outstanding at 30 June 2017 number	Awarded number	Exercised number	Relinquished number	**Instruments outstanding at 30 June 2018 number**
1 October 2014	65,46	233 081	–	(233 081)	–	**–**
1 October 2015	81,56	248 562	–	–	–	**248 562**
1 October 2016	92,35	216 444	–	–	–	**216 444**
1 October 2017	98,57	–	271 865	–	–	**271 865**
		698 087	271 865	(233 081)	–	**736 871**
Weighted average award price (R)		79,53	98,57	65,46	–	**91,01**
Weighted average share price on date of exercise (R)				101,22		

The weighted average remaining contractual life of instruments outstanding as at 30 June 2018 is 1,3 years (2017: 1,2 years).

All notional shares vest three years after award date. Notional shares are converted to AVI shares only if the performance requirements are met on the vesting date.

The AVI Black Staff Empowerment Scheme

The AVI Black Staff Empowerment Scheme was established to provide certain full time black employees of the Group with the opportunity of acquiring shares in the capital of the Company, and has been incorporated within the AVI Black Staff Empowerment Scheme Trust ("the Trust"). The purchase of shares by the Trust for the purpose of the scheme was funded by way of loans from employer companies in respect of participants who are their employees.

Participants have been granted a right to purchase ordinary AVI shares equal to the number of options awarded in three equal tranches after the fifth, sixth and seventh anniversaries of acceptance of the offer by the participant. The right to purchase is subject to the settlement of the exercise price by the participant and the express condition that the participant is still an employee at the relevant exercise date. The final allocation occurred in December 2011 and no further allocations will be made. The scheme shall terminate by no later than 12 years from inception.

Date of award	Award price R	Exercise price[1] R	Instruments outstanding at 30 June 2017 number	Exercised number	Relinquished number	**Instruments outstanding at 30 June 2018 number**
January 2007	15,51	0,78	48 594	(17 266)	–	**31 328**
October 2007	19,58	9,17	2 296	(2 230)	–	**66**
April 2008	16,49	2,42	6 011	–	–	**6 011**
April 2009	16,16	–	1 721	(731)	–	**990**
October 2009	18,48	2,80	9 164	(2 192)	–	**6 972**
April 2010	23,47	11,42	2 330	(1 282)	–	**1 048**
October 2010	25,32	13,72	210 156	(199 160)	(9 778)	**1 218**
April 2011	29,55	21,72	175 837	(161 420)	(6 727)	**7 690**
October 2011	32,29	25,35	371 163	(191 669)	(3 993)	**175 501**
December 2011	37,25	33,63	45 846	(22 973)	(959)	**21 914**
			873 118	(598 923)	(21 457)	**252 738**
Weighted average award price (R)			29,04	28,80	28,47	**29,66**
Weighted average share price on date of exercise (R)				102,21		

The weighted average remaining contractual life of instruments outstanding as at 30 June 2018 is 0,2 years (2017: 0,8 years).

[1] The exercise price is calculated at 30 June 2018 in terms of the Trust deed, which sets the purchase price as an amount equal to the sum of:
– the award price; plus
– an amount equal to a portion of the interest on the Trust loan attributable to such shares calculated to the date of exercise of the right to purchase; less
– any dividends received by the Trust in respect of the shares up to the date of exercise of the right to purchase.

8. Share capital and premium continued

Restrictions

Ordinary shares in the authorised and unissued capital of the Company were placed under the control of the directors with specific authority to allot and issue them in terms of the Group's existing share incentive schemes ("the Schemes"). The total number of share instruments, options or instruments convertible into ordinary shares which may be allocated for purposes of the Schemes are detailed in the table below.

Share incentive scheme	Authorised number	% of total issued share capital*	Remaining authorised but not issued number
AVI Executive Share Incentive Scheme	–	0,0	–
Revised AVI Executive Share Incentive Scheme	5 213 369	1,5	5 199 282
AVI Deferred Bonus Share Plan	5 213 369	1,5	4 727 530
AVI Out-Performance Scheme	6 915 158	2,0	6 215 915
Total	17 341 896	5,0	16 142 727

Each participant may not acquire share instruments or options under the Schemes which would amount in aggregate to more than 6 951 158 ordinary shares, which presently equates to 2,0% of the total issued share capital of the Company.

**At the date authority was granted.*

	2018 R'm	2017 R'm
9. Reserves		
The balance at end of year comprises:		
Share-based payment reserve	**242,8**	205,6
	242,8	205,6

Share-based payment reserve

The reserve comprises the fair value of equity instruments granted to Group employees, net of tax on deductible recharges. The fair value of the instruments are measured at grant date using generally accepted valuation techniques after taking into account the terms and conditions upon which the instruments were granted.

	2018 R'm	2017 R'm
10. Other payables		
Inter-company payables (Note 19)	**23,7**	14,5
Other payables and accrued expenses	**5,8**	5,6
	29,5	20,1

The inter-company payable is interest bearing and payable on demand.

	2018 R'm	2017 R'm
11. Revenue		
Dividends – unlisted companies	**1 745,5**	1 347,0
Dividends were received from:		
– Subsidiary companies	**1 729,6**	1 330,6
– Other investments	**15,9**	16,4
	1 745,5	1 347,0

	2018 R'm	2017 R'm
12. Operating profit		
In arriving at the operating profit before capital items, the following have been taken into account:		
Change in fair value of call option assets (Note 18)	**(37,4)**	22,1
Income on recognition of on-charge receivable	**(8,9)**	(6,2)
Auditors' remuneration		
– Fee for audit	**0,3**	0,2
– Fee for taxation services and consultations	**0,2**	0,1

Details of the directors' remuneration are given in the related party disclosure (Note 19).

		2018 R'm	2017 R'm
13.	**Finance costs**		
	Interest expense on borrowings	**1,2**	1,4
14.	**Cash generated by operations**		
	Operating profit before finance costs	**1 778,8**	1 321,6
	Adjusted for:		
	Non-cash items	**(46,4)**	15,9
	– On-charge income recognised in profit and loss	**(8,9)**	(6,2)
	– Change in fair value of call option assets	**(37,4)**	22,1
	– Other non-cash items	**(0,1)**	–
	Cash generated by operations before working capital charges	**1 732,4**	1 337,5
	Change in working capital	**62,6**	(116,6)
	Decrease/(increase) in other receivables	**53,1**	(118,4)
	Increase in other payables	**9,5**	1,8
	Cash generated by operations	**1 795,0**	1 220,9
15.	**Proceeds on issue of shares**		
	Own ordinary shares issued	**68,5**	226,2
16.	**Dividends paid**		
	Ordinary dividends paid	**1 470,0**	1 334,7
	Dividend paid and reflected in statement of changes in equity	**1 470,0**	1 334,7
	Ordinary shares		
	No 86 of 220 cents, paid 17 October 2016		766,4
	No 87 of 162 cents, paid 24 April 2017		568,3
	No 88 of 243 cents, paid 16 October 2017	**855,0**	
	No 89 of 175 cents, paid 23 April 2018	**615,0**	
		1 470,0	1 334,7
	Ordinary dividend No 90 of 260 cents in respect of the year ended 30 June 2018 and special dividend No 91 of 250 cents per share were declared on 7 September 2018 and are payable on 15 October 2018. This will be at the following cost after taking account of the ordinary shares in issue at the date of approval of the annual report.	**1 793,5**	

Dividends declared post 1 April 2012 have been declared out of income reserves and are subject to Dividend Withholding Tax at a rate of 20% effective from 22 February 2017 (15% before 22 February 2017) in respect of those shareholders who are not exempt from paying Dividend Withholding Tax.

17. Post-balance sheet events

No significant events that meet the requirements of IAS 10 have occurred since the reporting date.

18. Broad-Based Black Economic Empowerment ("BBBEE") transactions

Irvin & Johnson Holding Company Proprietary Limited ("I&J")

The Company sold 20% of its shareholding in I&J to Main Street 198 Proprietary Limited ("Main Street") in November 2004. Main Street is jointly owned by Mast Fishing Investment Holdings Proprietary Limited ("Mast Fishing") and Tresso Trading 946 Proprietary Limited ("Tresso Trading"), two broad-based black empowered companies with strong commitments to the South African fishing industry. The proceeds on disposal amounted to R160,8 million and the consideration was funded by the Company subscribing for cumulative redeemable preference shares in Main Street.

AVI further increased the BBBEE shareholding in I&J by donating 1% and selling 4% of its shareholding in I&J to a company owned by the South African black employees of I&J and its subsidiaries, Richtrau No. 53 Proprietary Limited ("Richtrau"), on 1 May 2005. On completion of the first vesting cycle and settlement of the gains due to I&J's black employees, the scheme was extended through the introduction of the I&J Black Staff Holding Company Proprietary Limited ("I&J Black Staff HoldCo"), a company owned by the South African black employees of I&J and its subsidiaries, which acquired 100% of the issued share capital of Richtrau. The consideration paid by the I&J Black Staff HoldCo amounted to R15,3 million and was funded by AVI Limited subscribing for cumulative redeemable preference shares in the I&J Black Staff HoldCo.

Post the implementation of the above transactions the effective BBBEE shareholding in I&J is 25% (2017: 25%).

The preference share liability of each company, including arrear preference dividends is as follows (Note 3):

	2018 R'm	2017 R'm
Main Street 198 Proprietary Limited	**159,3**	159,2
I&J Black Staff Holding Company Proprietary Limited	**15,3**	15,3

The investment in redeemable preference shares is measured at amortised cost using the effective interest method. Preference dividend income is recognised in profit or loss at the preference dividend rate over the period that it is earned. The preference share investment is assessed for impairment at each reporting date taking into consideration the earnings attributable to the BBBEE shareholders and is recognised in profit or loss, if impaired. No impairment has been recognised for the year ended 30 June 2018 (2017: Rnil).

The Company has adopted the following principles in accounting for the transactions referred to above:

Main Street

The I&J shareholders' agreement provides for a put option whereby Main Street can require AVI to purchase its shareholding in I&J, and a call option whereby AVI can acquire Main Street's shareholding in I&J. The exercise price of the put and call options is determined by a fixed formula per the shareholders' agreement, largely based on I&J's earnings. During June 2018, the exercise date was extended from July 2018 to July 2022. As part of the extension, a minimum guaranteed exercise price was agreed with Main Street based on the application of the fixed formula at 30 June 2018, of which R65,0 million was paid to Main Street.

A derivative financial asset (call option asset) or liability (put option liability) is recognised to the extent that Main Street's interest in the estimated fair value of I&J exceeds or falls short of the forecast exercise price. The derivative financial instrument is accounted for in terms of IAS 39 – *Financial Instruments: Recognition and Measurement*. The value of the derivative financial instrument when the put or call option is exercised will be included as part of AVI's equity investment in I&J upon reacquiring the I&J shares. The derivative financial instrument has been adjusted by the part payment of the minimum guaranteed exercise price in the current year.

I&J Black Staff HoldCo

The I&J Black Staff HoldCo Memorandum of Incorporation provides for a call option whereby AVI can acquire I&J Black Staff HoldCo's shareholding in I&J on 1 July 2021, and a put option whereby the shareholders of I&J Black Staff HoldCo can require AVI to purchase their shareholding in I&J from 28 December 2021. The exercise price of the put and call options is determined by a fixed formula per the shareholders' agreement, largely based on I&J's earnings over a period of several years.

A derivative financial asset (call option asset) or liability (put option liability) is recognised to the extent that I&J Black Staff HoldCo's interest in the estimated fair value of I&J exceeds or falls short of the forecast exercise price. The derivative financial instrument is accounted for in terms of IAS 39 – *Financial Instruments: Recognition and Measurement*. The value of the derivative financial instrument when the put or call option is exercised will be included as part of AVI's equity investment in I&J upon reacquiring the I&J shares.

The amount paid by AVI upon exercise of the call or put option will be on-charged to I&J.

18. Broad-Based Black Economic Empowerment ("BBBEE") transactions continued

Reconciliation of the change in fair value of call option assets (level 3 financial instruments)

	2018 R'm	2017 R'm
Fair value of call option assets at beginning of year	175,5	197,6
Changes in fair value recognised in profit or loss	37,4	(22,1)
Payment made to Main Street	65,0	–
Fair value of call option assets at end of year	277,9	175,5

19. Related party transactions

Transactions with Group entities

	2018 R'm	2017 R'm
Administration fees paid to a subsidiary – AVI Financial Services Proprietary Limited	0,6	0,6
Dividends received from subsidiaries (Note 11)	1 729,6	1 330,6
Loans to subsidiary companies (Note 2)	515,1	514,9
Call account maintained with AVI Group Treasury – AVI Financial Services Proprietary Limited (Note 7)	1 109,6	782,2
On-charge receivable from subsidiary (Note 5) – Irvin & Johnson Limited	52,5	43,6
Loan receivable from subsidiary (Note 6) – The AVI Limited Executive Share Incentive Scheme	74,4	127,5
Group share scheme recharge receivable from subsidiaries (Note 4)	92,6	79,3
Other payables to subsidiaries (Note 10) – Irvin & Johnson Black Staff Holding Company Proprietary Limited	23,7	14,5

Details of the principal subsidiaries, joint ventures and other investments are given in Note 2 and 3.

Ordinary shares

The beneficial holders of 3% or more of the issued ordinary shares of the Company at 30 June 2018 according to the information available to the directors were:

	Number of ordinary shares	%
Government Employees Pension Fund	51 381 827	14,61
AVI Investment Services Proprietary Limited	17 234 352	4,90
JP Morgan Asset Management	11 134 992	3,17
Vanguard Investment Management	10 879 268	3,09

Directors of the Company

Directors' emoluments

The following emoluments were paid to directors of the Company:

	Salary R'000	Bonus and performance-related payments R'000	Pension fund contributions R'000	Gains on exercise of share incentive instruments* R'000	Other benefits and allowances R'000	2018 Total R'000	2017 Total R'000
Executive directors							
SL Crutchley	7 609	3 947	591	35 813	69	48 029	38 994
OP Cressey	4 828	1 736	376	11 752	49	18 741	18 237
M Koursaris	3 372	1 270	374	6 778	34	11 828	11 668
	15 809	6 953	1 341	54 343	152	78 598	68 899

**Gains on exercise of share incentive instruments represent the actual gain received by the director on exercising vested share instruments.*

The above directors' emoluments were paid by another AVI Group company.

	2018 R'000	2017 R'000
19. Related party transactions continued		
Directors of the Company continued		
Directors' emoluments continued		
Non-executive directors' and committee fees		
GR Tipper (Chairman)	**1 553**	1 221
JR Hersov	**448**	356
A Nühn[1]	**1 035**	889
MJ Bosman	**716**	525
A Kawa[2]	**368**	381
AM Thebyane	**438**	298
NP Dongwana	**574**	508
RJD Inskip[3]	**–**	112
Total non-executive directors' and committee fees	**5 132**	4 290
Total directors' emoluments	**83 730**	73 189

[1] *Paid in Euros.*
[2] *Resigned 27 February 2018*
[3] *Resigned 23 November 2016.*

	2018 R'000	2017 R'000
The IFRS 2 charge in respect of share incentive instruments granted to directors is as follows:		
SL Crutchley	**7 705**	5 862
OP Cressey	**3 651**	2 754
M Koursaris	**2 692**	1 913
	14 048	10 529

Share incentive scheme interests

The directors of the Company have the following interests in AVI Group share incentive schemes:

The AVI Executive Share Incentive Scheme

Name	Date of award	Award price per instrument (exercise price) R	Instruments outstanding at 30 June 2017 number	Awarded number	Exercised number	Relinquished[1] number	**Instruments outstanding at 30 June 2018 number**
SL Crutchley	1 April 2013	55,88	169 702	–	(169 702)	–	**–**
	1 April 2014	53,38	202 156	–	(202 156)	–	**–**
	1 April 2015	84,45	128 252	–	–	–	**128 252**
	1 April 2016	83,06	149 693	–	–	–	**149 693**
OP Cressey	1 October 2014	67,47	68 218	–	(68 218)	–	**–**
	1 October 2015	82,67	61 705	–	–	–	**61 705**
M Koursaris	1 April 2014	53,38	62 399	–	–	–	**62 399**
	1 April 2015	84,45	19 281	–	–	–	**19 281**
	1 April 2016	83,06	64 097	–	–	–	**64 097**
			925 503	–	(440 076)	–	**485 427**

[1] *The number of relinquished instruments represents instruments sacrificed in favour of AVI Out-Performance Scheme options in terms of the rules of the AVI Out-Performance Scheme*

19. Related party transactions continued

The Revised AVI Executive Incentive Scheme

Name	Date of award	Award price per instrument R	Instruments outstanding at 30 June 2017 number	Awarded number	Exercised number	Relinquished[1] number	**Instruments outstanding at 30 June 2018 number**
SL Crutchley	1 April 2017	101,79	177 594	–	–	(50 336)	**127 258**
	1 April 2018	108,73	–	178 728	–	–	**178 728**
OP Cressey	23 November 2016	94,07	74 489	–	–	–	**74 489**
	1 October 2017	97,77	–	104 767	–	(26 645)	**78 122**
M Koursaris	1 April 2017	101,79	67 376	–	–	(19 178)	**48 198**
	1 April 2018	108,73	–	67 806	–	–	**67 806**
			319 459	351 301	–	(96 159)	**574 601**

[1] *The number of relinquished instruments represents instruments sacrificed in favour of AVI Out-Performance Scheme options in terms of the rules of the AVI Out-Performance Scheme.*

The AVI Executive Share Incentive Scheme was replaced by the Revised AVI Executive Share Incentive Scheme after approval by shareholders at the Annual General Meeting held on 3 November 2016 with no further allocations in terms of the AVI Executive Share Incentive Scheme after April 2016 (refer Note 8).

Unless specifically noted, all options are vested or vest three years after grant date, and lapse on the fifth anniversary of the grant date.

The AVI Out-Performance Scheme

Name	Date of award	Award price per instrument R	Instruments outstanding at 30 June 2017 number	Awarded number	Exercised number	Relinquished number	**Instruments outstanding at 30 June 2018 number**
SL Crutchley	1 October 2014	65,45	59 346	–	(59 346)	–	**–**
	1 October 2015	81,56	51 917	–	–	–	**51 917**
	1 October 2016	92,35	49 978	–	–	–	**49 978**
	1 October 2017	98,57	–	50 336	–	–	**50 336**
OP Cressey	1 October 2014	65,45	30 985	–	(30 985)	–	**–**
	1 October 2015	81,56	27 355	–	–	–	**27 355**
	1 October 2016	92,35	26 333	–	–	–	**26 333**
	1 October 2017	98,57	–	26 645	–	–	**26 645**
M Koursaris	1 October 2014	65,45	22 715	–	(22 715)	–	**–**
	1 October 2015	81,56	19 781	–	–	–	**19 781**
	1 October 2016	92,35	19 042	–	–	–	**19 042**
	1 October 2017	98,57	–	19 178	–	–	**19 178**
			307 452	95 159	(113 046)	–	**290 565**

All instruments vest three years after award date. Instruments are converted to shares if the performance requirements are met on the measurement date.

19. Related party transactions continued

The AVI Deferred Bonus Share Plan

Name	Date of award	Award price per instrument R	Instruments outstanding at 30 June 2017 number	Awarded number	Exercised number	Relinquished number	**Instruments outstanding at 30 June 2018 number**
SL Crutchley	18 November 2016	88,59	74 892	–	–	–	**74 892**
	1 October 2017	97,55	–	27 185	–	–	**21 785**
OP Cressey	18 November 2016	88,59	33 003	–	–	–	**33 003**
	1 October 2017	97,55	–	12 229	–	–	**12 229**
M Koursaris	18 November 2016	88,59	24 003	–	–	–	**24 003**
	1 October 2017	97,55	–	8 904	–	–	**8 904**
			131 898	48 318	–	–	**180 216**

The AVI Deferred Bonus Share Plan was approved by shareholders at the Annual General Meeting held on 3 November 2016 with the first allocation on 18 November 2016 (refer Note 8).

Upon vesting, the shares become unrestricted in the hands of participants. The cost of the AVI shares is funded by way of contributions from employer companies in respect of participants who are their employees.

The vesting of shares prior to the completion of the three year restriction period represents the portion allowed to vest on retirement, death, disability or retrenchment.

20. Financial risk management

20.1 Overview

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing financial risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Board of directors has overall responsibility for the establishment and oversight of the Company's financial risk management framework. The AVI Group Treasury, together with the relevant business unit executives, is responsible for developing the relevant financial risk management policies and for monitoring risk.

The Company's financial risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to identify and account for changes in market conditions and the Company's activities. The Company aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

The AVI Audit Committee oversees management's monitoring of compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the financial risks faced by the Company. The AVI Audit Committee is assisted in its oversight role by internal audit. Internal audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the AVI Audit Committee.

20.2 Capital management

The Board's policy is to maintain a strong working capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business.

From time to time the Company purchases its own shares in the market under general authority granted by shareholders; the timing of these purchases depends on market prices. Primarily the shares are repurchased as part of a programme to return capital to shareholders, but some may be used for issuing shares under the AVI Group's share incentive schemes. Buying decisions are made under specific mandates from the executive directors.

There were no changes in the Company's approach to capital management during the year.

20. Financial risk management continued

20.3 Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's other investments and cash and cash equivalents.

Cash and cash equivalents and other investments

The majority of the Company's cash and cash equivalents and other investments are in liquid securities with counterparties that have sound credit ratings. Where considered necessary, security is sought. Management does not expect any counterparty to fail to meet its obligations.

Guarantees

The Company's policy is to provide limited financial guarantees in respect of banking facilities for subsidiaries. At 30 June 2018 guarantees were in place for AVI Financial Services Proprietary Limited, National Brands Limited, Irvin & Johnson Holding Company Proprietary Limited, A&D Spitz Proprietary Limited, Indigo Brands Proprietary Limited, Hampton Sportswear Proprietary Limited and Green Cross Manufacturers Proprietary Limited (2017: AVI Financial Services Proprietary Limited, National Brands Limited, Irvin & Johnson Holding Company Proprietary Limited, A&D Spitz Proprietary Limited and Green Cross Manufacturers Proprietary Limited).

In addition the Company provides limited sureties for outstanding debt under the cash management agreement for Group subsidiary companies that participate in the Group's cash management agreement.

Exposure to credit risk

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

	2018 R'm	2017 R'm
Other investments	**174,6**	174,5
Other receivables*	**74,4**	127,5
Cash and cash equivalents	**1 109,9**	782,8
	1 358,9	1 084,8

* *Excludes Group share scheme recharge receivable.*

20.4 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company'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 Company's reputation.

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

	Carrying amount R'm	**Contractual cash flows R'm**	**6 months or less R'm**	**6 – 12 months R'm**	**+1 – 5 years R'm**	**More than 5 years R'm**
30 June 2018						
Non-derivative financial liabilities						
Other payables	**29,5**	**29,5**	**29,5**	**–**	**–**	**–**
30 June 2017						
Non-derivative financial liabilities						
Other payables	20,1	20,1	20,1	–	–	–

20. Financial risk management continued

20.5 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and commodity input prices, will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Interest rate risk

The Company, being strongly cash generative, adopts a policy of ensuring that most of its exposure to changes in interest rates on borrowings is on a floating rate basis. Where economical, interest rate swaps may be entered into on a portion of debt.

Profile

At the reporting date the interest rate profile of the Company's interest-bearing financial instruments was:

	Carrying amount	
	2018 R'm	2017 R'm
Variable rate instruments		
– financial assets	**1 284,5**	957,3
– financial liabilities	**–**	–
	1 284,5	957,3

Cash flow sensitivity analysis for variable rate instruments

An increase of 100 basis points in interest rates at the reporting date, calculated on the closing balances and using simple interest for 12 months, would have decreased profit by the amounts shown below. A decrease of 100 basis points would have had the equal but opposite effect to the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2017.

	2018 R'm	2017 R'm
Variable rate instruments		
– financial assets	**12,8**	9,6
– financial liabilities	**–**	–
Net cash flow sensitivity	**12,8**	9,6

21. Financial assets and liabilities

Accounting classifications and fair values

The table below sets out the Company's classification of each class of financial assets and liabilities, including their levels in the fair value hierarchy.

	Carrying amount					Fair value			
	Total carrying amount R'm	Financial assets and liabilities designated at fair value R'm	Loans and receivables at amortised cost R'm	Financial liabilities at amortised cost R'm	Total R'm	Level 1 R'm	Level 2 R'm	Level 3 R'm	Total R'm
30 June 2018									
Financial assets	2 296,8	422.8	1 874,0	–	2 296,8		92,4	330,4	422,8
On-charge receivable	52,5	52,5			52,5			52,5	52,5
Borrowings by subsidiary companies	515,1		515,1		515,1				
Preference shares	174,6		174,6		174,6				
Call option assets	277,9	277,9	–		277,9			277,9	277,9
Group share scheme recharge receivable	92,4	92,4			92,4		92,4		92,4
Other receivables	74,4		74,4		74,4				
Cash and cash equivalents	1 109,9		1 109,9		1 109,9				
Financial liabilities	(29,5)	–	–	(29,5)	(29,5)				
Other payables and accrued expenses	(29,5)			(29,5)	(29,5)				
30 June 2017									
Financial assets	1 898,1	298,4	1 599,7	–	1 898,1		79,3	219,1	298,4
On-charge receivable	43,6	43,6			43,6			43,6	43,6
Borrowings by subsidiary companies	514,9		514,9		514,9				
Preference shares	174,5		174,5		174,5				
Call option assets	175,5	175,5			175,5			175,5	175,5
Group share scheme recharge receivable	79,3	79,3			79,3		79,3		79,3
Other receivables	127,5		127,5		127,5				
Cash and cash equivalents	782,8		782,8		782,8				
Financial liabilities	(20,1)	–	–	(20,1)	(20,1)				
Other payables and accrued expenses	(20,1)			(20,1)	(20,1)				

Management has assessed that the fair values of borrowings by subsidiary companies, preference shares, cash and cash equivalents, other receivables and other payables approximate their carrying amounts largely due to the short-term maturities of these instruments.

The different levels as disclosed in the table above have been defined as follows:
Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
Level 3 – inputs for the assets or liability that are not based on observable market data (unobservable inputs).

Fair values have been determined for measurement and/or disclosure purposes based on the methods described below. Where applicable, further information about the assumptions made in determining fair value is disclosed in the notes specific to that asset or liability.

21. Financial assets and liabilities continued

Measurement of fair value

The following table shows the valuation techniques used in measuring level 3 fair values, as well as the significant unobservable inputs used.

Financial instruments measured at fair value

Derivative financial instruments have been recognised for the call and put options relating to I&J's BBBEE transactions (Note 18). These derivative financial instruments have been accounted for in terms of IAS 39 – *Financial Instruments: Recognition and Measurement.*

The amount expected to be incurred by AVI in terms of the buyback of shares from I&J Black Staff HoldCo on the exercise of the put or call option will be recovered from I&J through an on-charge. Consequently an on-charge receivable is recognised for the amount expected to be received from I&J based on the amount AVI will incur in buying the shares from I&J Black Staff HoldCo.

The valuation technique, unobservable inputs and the inter-relationship between significant inputs and the fair value in respect of the call option assets/put option liabilities and on-charge receivable are detailed below.

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurements
Derivative financial instruments at fair value in respect of call option assets, and on-charge receivable.	The call option assets are measured as the difference between I&J's estimated fair value and the forecast option exercise price. The on-charge receivable from I&J is measured as the difference between the forecast option exercise price and the forecast preference share balance. A discounted cash flow valuation model as well as a Monte Carlo valuation model is used to determine the forecast option exercise price and forecast preference share balance by considering the present value of expected cash flows discounted to a present value using a risk free discount rate. The expected cash flows are determined with reference to a fixed formula, taking into account the minimum guaranteed exercise price (for the Main Street arrangement), which forms the basis for future payments and considers the I&J Group forecast headline earnings over the applicable measurement period taking cognisance of historical earnings volatility. Given the complexity of I&J's business and historical headline earnings volatility, the determination of forecast earnings is challenging, however, greater certainty will be achieved closer to vesting date. I&J's estimated fair value is determined by: • evaluating the reasonability of its net asset value; • assessing future earnings prospects; and • considering specific factors unique to an asset of its nature. In the current year an estimated fair value of net asset value plus 20% has been used in the calculation of the call option assets.	1. I&J's forecast headline earnings are impacted by exchange rates, hake resource performance, quota allocation and selling prices in export markets; and 2. Discount rate of 7,85% based on the R208 bond rate which has a similar maturity date.	The estimated fair value would increase/(decrease) if: 1. The headline earnings were higher/(lower); and 2. The discount rate were lower/(higher).

21. Financial assets and liabilities continued

There were no transfers between levels 1, 2 or 3 of the fair value hierarchy for the years ended 30 June 2018 and 30 June 2017.

A reconciliation of the movement in the fair value of the call option assets has been disclosed in Note 18.

22. Segment reporting

Management have assessed that this entity is managed as one segment due to the fact that it is an investment holding company. The primary source of income is dividends received. Segment reporting is not disclosed in this set of financial statements.

The segment report of the AVI Limited Group of companies is included in the consolidated financial statements available at the Company's registered office or on the AVI website www.avi.co.za.

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