3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

3.3 Market risk

Market risk is the risk that changes in market prices (interest rate and currency risk) will affect the Group's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group is exposed to risks from movements in foreign exchange rates and interest rates that affect its assets, liabilities and anticipated future transactions. The Group is not exposed to significant levels of price risk.

(i) Interest rate risk

The Group's cash flow interest rate risk arises from loans receivable, cash and cash equivalents, and borrowings carrying interest at variable rates. The Group is not exposed to fair value interest rate risk as the Group does not have any fixed interest-bearing instruments carried at fair value other than the instruments detailed in note 3.7 where the fair value risk of these instruments is detailed.

As part of the process of managing the Group's exposure to interest rate risk, interest rate characteristics of new borrowings and the refinancing of existing borrowings are positioned according to expected movements in interest rates.

Estimated change to profit or loss as a result of Increase/decrease in market interest rates	**2019 R'000**	2018 R'000
An increase or decrease in the market interest rates of 1% (100 basis points) would increase/decrease profit before tax by:	**17 641**	9 900

The interest rate sensitivity analysis is based on the following assumptions:
- Changes in market interest rates affect the interest income or expense of variable interest financial instruments; and
- Changes in market interest rates only affect interest income or expense in relation to financial instruments with fixed interest rates if these are recognised at fair value.

(ii) Foreign currency risk

The Group is exposed to foreign currency risk from transactions and translations. Transaction exposure arises because affiliated companies undertake transactions in currencies other than their functional currency. Translation exposure arises where affiliated companies have a functional currency other than the rand.

The Group manages its exposure to foreign currency risk by ensuring that the net foreign currency exposure remains within acceptable levels. Hedging instruments may be used in certain instances to reduce risks arising from foreign currency fluctuations.

In the current year the Group incurred a foreign exchange gain of R36.6 million (2018: R19.6 million loss) mainly as a result of the Group's USD exposure.

Foreign currency sensitivity analysis

The Group has used a sensitivity analysis technique that measures the estimated change to profit or loss of an instantaneous 10% strengthening or weakening in the rand against all other currencies, from the rate applicable at 31 May 2019, for each class of financial instrument with all other variables remaining constant. This analysis is for illustrative purposes only, as in practice, market rates rarely change in isolation.

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS continued

3.3 Market risk continued

(ii) Foreign currency risk continued

Foreign currency sensitivity analysis continued

Net exposure to foreign currencies Denominated: Functional currency	Net assets/ (liabilities) denominated in foreign currency R'000	Change in exchange rate %	(Decrease)/increase in profit before tax: Weakening in functional currency R'000	(Decrease)/increase in profit before tax: Strengthening in functional currency R'000
2019				
USD: ZAR	**(73 607)**	**10**	**7 361**	**(7 361)**
EUR: ZAR	**9 334**	**10**	**(933)**	**933**
BRL: ZAR	**4 603**	**10**	**(460)**	**460**
NAD: ZAR	**21 767**	**10**	**(2 177)**	**2 177**
MUR: ZAR	**102 439**	**10**	**(10 244)**	**10 244**
BWP: ZAR	**36 434**	**10**	**(3 643)**	**3 643**
ZMW: ZAR	**(1 131)**	**10**	**113**	**(113)**
	99 839		**(9 983)**	**9 983**
2018				
USD: ZAR	174 296	10	(17 430)	17 430
EUR: ZAR	27 109	10	(2 711)	2 711
NAD: ZAR	14 094	10	(1 409)	1 409
MUR: ZAR	51 806	10	(5 181)	5 181
BWP: ZAR	36 059	10	(3 606)	3 606
ZMW: ZAR	(1 213)	10	121	(121)
	302 151		(30 216)	30 216

3.4 Capital adequacy risk

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust this capital structure, the Company may issue new shares, adjust the amount of dividends paid to shareholders, return capital to shareholders or sell assets to reduce debt. The Group defines capital as capital and reserves and non-current borrowings. The Group is not subject to externally imposed capital requirements.

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