3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

3.6 Fair value measurement continued

Fair value of the Company's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Company's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined.

				Sensitivity analysis of valuations using unobservable inputs	
Financial asset/ liability	**Valuation technique applied**	**Significant unobservable inputs applied**	**Range of unobservable inputs applied**	**Positive/ (negative) variance applied to parameters***	**Potential effect on profit or loss and equity R'000**
Class B Preference Share	Discounting of cash flow after taking into account credit risk of Cell C	Probability of default of Cell C	10.11% – 12.35% PD range	10/(10)%	(4 648) – 4 648
SPV5 derivative liability	Discounting of cash flow after taking into account credit risk of Cell C	Probability of default of Cell C	5% – 56.86% LGD range	10/(10)%	804 – (804)
Escrow receivable	Discounting of post churn cash flows after taking into account the credit risk of the book sold to ABL	Probability of default of the debtors book sold	80 – 100% PD range	10/(10)%	(3 888) – 3 888

* A significant parameter has been deemed to be one which may result in a charge to profit or loss, or a change in the fair value of the asset or liability by more than 10% of the underlying value of the affected item.

Credit risk of financial instruments designated at fair value

The following table represents the maximum exposure to credit risk of financial liabilities linked to the credit risk of another counterparty:

	Counterparty credit risk exposure	Maximum exposure to credit risk
Class A Preference Share	Cell C	180 254

3.7 Hedge accounting

The cash flow hedge transaction arose in 2021. TPC entered into a ZAR denominated floating rate debt instrument and was exposed to variability in interest payments as a result of interest rate fluctuations. To hedge this interest rate risk, TPC took out a pay-fixed, receive-floating interest rate swap instrument. The type of hedging relationship is a cash flow hedge. The interest-rate swap instrument matured on 9 October 2023. The company does not have any interest-rate swap agreements in place as at 31 May 2024.

	Interest rate swap	
	2024 R'000	2023 R'000
Opening balance	**12 914**	20 224
Change in value of the hedging instrument recognised in other comprehensive income	**(9)**	8 693
Interest settlements	**(12 905)**	(16 003)
Closing balance	**—**	12 914
Amounts included in non-current portion of financial assets at fair value through other comprehensive income	**—**	—
Amounts included in current portion of financial assets at fair value through other comprehensive income	**—**	12 914

3.8 Leases

The Group leases various offices and warehouses. Rental contracts are typically concluded for fixed periods of one to five years but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Lease liabilities are initially measured at the present value of the lease payments discounted using the interest rate implicit in the lease. Lease payments include fixed payments and variable lease payments that depend on an index or rate.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. To determine this rate, the Group, where possible, uses recent third-party financing received, adjusted to reflect changes in circumstances and financing conditions since financing was obtained.

Payments associated with short-term leases (12 months or less) and leases of low-value assets (less than R50 000) are recognised on a straight-line basis as an expense in profit or loss.

The fair value of the lease liabilities approximates their carrying amounts.