Notes to the financial statements continued

for the year ended 30 September 2014

36 Guarantees and contingent liabilities

	GROUP	
(R'million)	2014	Restated* 2013
Guarantees and contingent liabilities	70,8	78,8

** The amounts have been restated due to the adoption of IAS 19R.*

Guarantees exist against the group for third-party obligations of R70,8 million at 30 September 2014 (2013: R78,8 million).

COMPANY

Guarantees exist against the company for the obligations of certain subsidiaries amounting to R55,0 million at 30 September 2014 (2013: R63,0 million).

Shares in Chocolaterie Confiserie Camerounaise SA (Chococam), acquired on 1 August 2008 have been pledged as security for the foreign loan utilised to acquire the subsidiary.

Refer to note 31.1.

37 Financial instruments

The group's objective in using financial instruments is to reduce the uncertainty over future cash flows arising principally as a result of commodity price, currency and interest rate fluctuations. The use of derivatives for the hedging of firm commitments against commodity price, foreign currency and interest rate exposures is permitted in accordance with group policies, which have been approved by the board of directors. Where significant finance is taken out, this is approved at board meetings.

The foreign exchange contracts outstanding at year end are marked to market at closing spot rate.

The group finances its operations through a combination of retained surpluses, bank borrowings and long-term loans.

The group borrows short-term funds with fixed or floating rates of interest through the holding company, Tiger Brands Limited.

The main risks arising from the group's financial instruments are, in order of priority, procurement risk, foreign currency risk, interest rate risk, liquidity risk and credit risk, as detailed below.

37.1 Procurement risk (commodity price risk)

Commodity price risk arises from the group being subject to raw material price fluctuations caused by supply conditions, weather, economic conditions and other factors. The strategic raw materials acquired by the group include wheat, maize, rice, oats and sorghum.

The group uses commodity futures and options contracts or other derivative instruments to reduce the volatility of commodity input prices of strategic raw materials. These derivative contracts are only taken out to match an underlying physical requirement for the raw material. The group does not write naked derivative contracts.

The group has developed a comprehensive risk management process to facilitate, control and to monitor these risks. The procurement of raw materials takes place in terms of specific mandates given by executive management. Position statements are prepared on a monthly basis and these are monitored by management and compared to the mandates.

The board has approved and monitors this risk management process, inclusive of documented treasury policies, counterparty limits, controlling and reporting structures.