

# Accounting policies

## Definitions

Refer page 139 for a list of financial terms used in the annual financial statements of Barloworld Limited (the Company) and consolidated financial statements.

## Basis of preparation

### 1. Accounting framework

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board using the historical cost convention except for certain financial instruments that are stated at fair value and adjustments, where applicable, in respect of hyperinflation accounting.

The basis of preparation is consistent with the prior year, except for new and revised standards and interpretations adopted per note 35 to the financial statements.

### 2. Underlying concepts

The financial statements are prepared on the going concern basis using accrual accounting.

Assets and liabilities and income and expenses are not offset unless specifically permitted by an accounting standard.

Financial assets and financial liabilities are offset and the net amount reported only when a legally enforceable right to set off the amounts exists and the intention is either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Changes in accounting policies are accounted for in accordance with the transitional provisions in the standards. If no such guidance is given, they are applied retrospectively, unless it is impracticable to do so, in which case they are applied prospectively.

Changes in accounting estimates are recognised in profit or loss.

Prior period errors are retrospectively restated unless it is impracticable to do so, in which case they are applied prospectively.

### 3. Recognition of assets and liabilities

Assets are only recognised if they meet the definition of an asset, it is probable that future economic benefits associated with the asset will flow to the group and the cost or fair value can be measured reliably.

Liabilities are only recognised if they meet the definition of a liability, it is probable that future economic benefits associated with the liability will flow from the entity and the cost or fair value can be measured reliably.

Financial instruments are recognised when the entity becomes a party to the contractual provisions of the instrument. Financial assets and liabilities as a result of firm commitments are only recognised when one of the parties has performed under the contract.

Regular way purchases and sales are recognised using trade date accounting.

### 4. Derecognition of assets and liabilities

Financial assets are derecognised when the contractual rights to receive cash flows have been transferred or have expired or when substantially all the risks and rewards of ownership have passed.

All other assets are derecognised on disposal or when no future economic benefits are expected from their use.

Financial liabilities are derecognised when the relevant obligation has either been discharged or cancelled or has expired.

### 5. Foreign currencies

The functional currency of each entity within the group is determined based on the currency of the primary economic environment in which that entity operates. Transactions in currencies other than the entity's functional currency are recognised at the rates of exchange ruling on the date of the transaction. Monetary assets and liabilities denominated in such currencies are translated at the rates ruling at the balance sheet date.

Gains and losses arising on exchange differences are recognised in profit or loss.

The financial statements of entities within the group whose functional currencies are different to the group's presentation currency, which is South African Rand, are translated as follows:

- Assets, including goodwill, and liabilities at exchange rates ruling on the balance sheet date
- Income items, expense items and cash flows at the average exchange rates for the period
- Equity items at the exchange rate ruling when they arose

Resulting exchange differences are classified as a foreign currency translation reserve and recognised directly in equity. On disposal of such a business unit, this reserve is recognised in profit or loss.

### 6. Hyperinflationary currencies

The financial statements of foreign entities that report in the currency of a hyperinflationary economy are restated for the decrease in general purchasing power of the currency at the balance sheet date before they are translated into the group's presentation currency.

### 7. Segmental reporting

Segment accounting policies are consistent with those adopted for the preparation of the group financial statements. The primary basis for reporting segment information is business segments and the secondary basis is by significant geographical region, which is based on the location of assets. The basis is consistent with internal reporting for management purposes as well as the source and nature of business risks and returns. All intra-segment transactions are eliminated on consolidation.

#### 8. Post-balance sheet events

Recognised amounts in the financial statements are adjusted to reflect events arising after the balance sheet date that provide evidence of conditions that existed at the balance sheet date. Events after the balance sheet that are indicative of conditions that arose after the balance sheet date are dealt with by way of a note.

#### 9. Comparative figures

Comparative figures are restated in the event of a change in accounting policy or a prior period error.

### Company Financial Statements

#### 10. Subsidiaries, associates and joint ventures

Investments in subsidiaries, associates and joint ventures in the separate financial statements presented by the Company are recognised at cost.

### Consolidated Financial Statements

#### 11. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities, income, expenses and cash flows of the Company and all entities controlled by the Company as if they are a single economic entity. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the date of acquisition or up to the date of disposal.

Inter-company transactions and the resulting unrealised profits and balances between group entities are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are shown separately from the group equity therein. It consists of the amount of those interests at acquisition plus the minorities' subsequent share of changes in equity of the subsidiary. On acquisition, the minorities' interest is measured at the proportion of the pre-acquisition fair values of the identifiable assets and liabilities acquired. Losses applicable to minorities in excess of its interest in the subsidiaries' equity are allocated against the group's interest except to the extent that the minorities have a binding obligation and the financial ability to cover losses. Minorities are considered to be equity participants and all transactions with minorities are recorded directly within equity.

#### 12. Interests in associates and joint ventures

The consolidated financial statements incorporate the assets, liabilities, income and expenses of associates and joint ventures using the equity method of accounting, applying the group's accounting policies, from the acquisition date to the disposal date (except when the investment is classified as held for sale, in which case it is accounted for as Non-current Assets Held For Sale (see

accounting policy note 19 below). The most recent audited annual financial statements of associates and joint ventures are used, which are all within three months of the year end of the group. Adjustments are made to the associate's or joint venture's financial results for material transactions and events in the intervening period. Losses of associates and joint ventures in excess of the group's interest are not recognised unless there is a binding obligation to contribute to the losses.

Goodwill arising on the acquisition of associates and joint ventures is included in the carrying amount of the associate and accounted for in accordance with the accounting policy for goodwill as set out in note 18 below with the exception of impairment testing which is done in accordance with note 36 below and not done separately from the investment.

Where a group entity transacts with an associate or a jointly controlled entity of the group, unrealised profits and losses are eliminated to the extent of the group's interest in the relevant associate or jointly controlled entity.

### Financial Statement Items

#### Balance Sheet

#### 13. Property, plant and equipment

Property, plant and equipment represents tangible items that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and are expected to be used during more than one period.

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes the estimated cost of dismantling and removing the assets.

Owner occupied properties and investment properties in the course of construction are carried at cost, less any impairment loss where the recoverable amount of the asset is estimated to be lower than its carrying value. Cost includes professional fees and, for qualifying assets, borrowings costs capitalised in accordance with the group's accounting policy. Depreciation commences, on the same basis as other property assets, when the assets are ready for their intended use.

Depreciation is charged so as to write off the depreciable amount of the assets, other than land, over their estimated useful lives to estimated residual values, using a method that reflects the pattern in which the asset's future economic benefits are expected to be consumed by the entity.

Where significant parts of an item have different useful lives to the item itself, these parts are depreciated over their estimated useful lives.

The methods of depreciation, useful lives and residual values are reviewed annually.

## Accounting policies *(continued)*

The following methods and rates were used during the year to depreciate property, plant and equipment to estimated residual values:

Aircraft	Straight line	5 years
Buildings	Straight line	20 to 50 years
Plant	Straight line	5 to 35 years
Vehicles	Straight line	5 to 10 years
Equipment	Straight line	5 to 10 years
Furniture	Straight line	3 to 15 years

Assets held under finance leases are depreciated over their expected useful lives or the term of the relevant lease, where shorter.

The gain or loss arising on the disposal or scrapping of property, plant, and equipment is recognised in profit or loss.

Vehicle rental fleets are accounted for as part of property, plant and equipment but due to the short term nature of the assets, the net book value is reflected under current assets on the balance sheet.

### 14. Decommissioning and rehabilitation assets

Group companies are generally required to restore mine and processing sites at the end of their producing lives to a condition acceptable to the relevant authorities and consistent with the group's environmental policies.

The expected cost of any committed decommissioning or restoration programme, discounted to its net present value, is provided and capitalised at the beginning of each project. The capitalised cost is depreciated over the expected life of the asset and the increase in the net present value of the provision for the expected cost is included with finance costs. Subsequent changes in the initial estimates of rehabilitation and decommissioning costs are capitalised as part of the cost of the item and depreciated prospectively over the remaining life of the item to which they relate.

The cost of ongoing programmes to prevent and control pollution and to rehabilitate the environment is taken to profit or loss as incurred.

Annual contributions are made to the group's Environmental Rehabilitation Trust Fund, created in accordance with statutory requirements, to provide for the estimated cost of pollution control and rehabilitation to the end of the life of the related asset. The financial statements of the trust fund are incorporated with the consolidated financial statements.

### 15. Investment property

An investment property is either land or a building or part of a building held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both.

The cost model is applied in accounting for investment property, i.e. the investment property is recorded at cost less any accumulated depreciation and impairment losses.

### 16. Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance. It includes patents, trademarks, capitalised development cost and certain costs of purchase and installation of major information systems (including packaged software).

Intangible assets are initially recognised at cost if acquired separately or internally generated or at fair value if acquired as part of a business combination. If assessed as having an indefinite useful life, the intangible asset is not amortised but tested for impairment annually and impaired if necessary. If assessed as having a finite useful life, it is amortised over their useful lives (generally three to seven years) using a straight line basis and tested for impairment if there is an indication that they may be impaired.

Research costs are recognised in profit or loss when incurred.

Development costs are capitalised only when and if it results in an asset that can be identified, it is probable that the asset will generate future economic benefits and the development cost can be reliably measured. Otherwise it is recognised in profit or loss.

Patents and trademarks are measured initially at cost and amortised on a straight-line basis over their estimated useful lives, which is on average 10 years.

### 17. Goodwill

Goodwill represents the future economic benefits arising from assets that are not capable of being individually identified and separately recognised in a business combination and is determined as the excess of the cost of acquisition over the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary, associate or joint venture recognised at the date of acquisition.

Goodwill is recognised as an asset, is stated at cost less impairment losses and is not amortised.

Goodwill acquired in a business combination for which the agreement date was before 31 March 2004 was previously amortised on a systematic basis over its estimated useful life. The accumulated amortisation previously raised has been netted against the cost on 1 October 2004.

If, on a business combination, the fair value of the group's interest in the identifiable assets, liabilities and contingent liabilities exceeds the cost of acquisition, this excess is recognised in profit or loss immediately. For business combinations for which the agreement date was before 31 March 2004, this was called negative goodwill and presented as a negative asset. This amount has since been transferred to retained income on 1 October 2004.

On disposal of a subsidiary, associate, jointly controlled entity or business unit to which goodwill was allocated on acquisition, the amount attributable to such goodwill is included in the determination of the profit or loss on disposal.

#### 18. Deferred taxation assets and liabilities

Deferred taxation is recognised using the balance sheet liability method for all temporary differences, unless specifically exempt, at the tax rates that have been enacted or substantially enacted at the balance sheet date.

A deferred taxation asset represents the amount of income taxes recoverable in future periods in respect of deductible temporary differences, the carry forward of unused tax losses and the carry forward of unused tax credits (including unused credits for Secondary Taxation on Companies). Deferred taxation assets are only recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

A deferred taxation liability represents the amount of income taxes payable in future periods in respect of taxable temporary differences. Deferred taxation liabilities are recognised for taxable temporary differences, unless specifically exempt.

Deferred taxation assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither taxable income nor accounting profit.

Deferred taxation arising on investments in subsidiaries, associates and joint ventures is recognised except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred taxation assets and liabilities are offset when there is a legally enforceable right to offset current taxation assets against current taxation liabilities and it is the intention to settle these on a net basis.

#### 19. Non-current assets held for sale

Non-current assets (or disposal groups) are classified as held for sale if the carrying amount will be recovered principally through sale rather than through continuing use. This condition is regarded as met only when the sale is highly probable, the assets (or disposal groups) are available for immediate sale in its present condition and management is committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of the classification.

Immediately prior to being classified as held for sale the carrying amount of assets and liabilities are measured in accordance with the applicable standard. After classification as held for sale it is measured at the lower of

the carrying amount and fair value less costs to sell. An impairment loss is recognised in profit or loss for any initial and subsequent write-down of the asset and disposal group to fair value less costs to sell. A gain for any subsequent increase in fair value less costs to sell is recognised in profit or loss to the extent that it is not in excess of the cumulative impairment loss previously recognised.

Non-current assets or disposal groups that are classified as held for sale are not depreciated.

Rental assets that become available for sale after being removed from rental fleets are classified as held for sale.

#### 20. Inventories

Inventories are assets held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are stated at the lower of cost and net realisable value. Cost includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition, net of discount and rebates received. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion, distribution and selling.

The specific identification basis is used to arrive at the cost of items that are not interchangeable. Otherwise the first-in-first-out method or weighted average method for certain classes of inventory is used to arrive at the cost of items that are interchangeable.

#### 21. Financial assets

A financial asset is an asset that is cash, an equity instrument of another entity, a contractual right to receive cash or another financial asset from another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

Financial assets are initially measured at fair value plus transaction costs. However, transaction costs in respect of financial assets classified as at fair value through profit or loss are expensed.

Investments classified as held-to-maturity financial assets are measured at amortised cost less any impairment losses recognised to reflect irrecoverable amounts.

Financial assets are classified as financial assets at fair value through profit or loss where the financial asset is either held for trading or is designated as at fair value through profit or loss and are carried at fair value with any gains or losses being recognised in profit or loss. Fair value, for this purpose, is market value if listed or a value arrived at by using appropriate valuation models if unlisted.

## Accounting policies *(continued)*

Trade and other receivables are classified as loans and receivables and are measured at amortised cost less provision for doubtful debts, which is determined as set out under Impairment of assets below. Items with extended terms are initially recorded at the present value of future cash flows and interest received is accounted for over the term until payment is received. Write-downs of these assets are expensed in profit or loss.

Other investments are classified as available-for-sale financial assets. These investments are carried at fair value with any gains or losses being recognised directly in equity. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in equity is included in profit or loss for the period. Fair value, for this purpose, is market value if listed or a value arrived at by using appropriate valuation models if unlisted.

Derivatives that are assets are measured at fair value, with changes in fair value being included in profit or loss other than derivatives designated as cash flow hedges. The fair value of derivative assets is classified as non-current assets if the remaining maturity of the instruments are more than, and it is not expected to be realised within, 12 months.

Cash and cash equivalents are measured at fair value, with changes in fair value being included in profit or loss.

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risk and characteristics are not closely related to those of the host contract and the host contract is not classified as at fair value through profit or loss.

### 22. Financial liabilities

A financial liability is a liability that is a contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity.

Financial liabilities are initially measured at fair value plus transaction costs. However, transaction costs in respect of financial liabilities classified as at fair value through profit or loss are expensed.

Financial liabilities are classified as at fair value through profit or loss where the financial liability is either held for trading or it is designated as at fair value through profit or loss.

Non-derivative financial liabilities that are not designated on initial recognition as financial liabilities at fair value through profit or loss (including interest-bearing loans and bank overdrafts) are measured at amortised cost. Items with extended terms are initially recorded at the present value of future cash flows. Any difference between the

proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the accounting policy for borrowing costs (see accounting policy note 32 below).

Non-derivative financial liabilities that are classified on initial recognition as financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being included in net profit or loss.

Derivatives that are liabilities are measured at fair value, with changes in fair value being included in net profit or loss other than derivatives designated as cash flow hedges. The fair value of derivative liabilities is classified as non-current liabilities if the remaining maturity of the instruments are more than, and it is not expected to be settled within, 12 months.

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risk and characteristics are not closely related to those of the host contract and the host contract is not classified as at fair value through profit or loss.

### 23. Post-employment benefit obligations

Payments to defined contribution plans are recognised as an expense as they fall due. Payments made to industry-managed retirement benefit schemes are dealt with as defined contribution plans where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit plan.

The cost of providing defined benefits is determined using the projected unit credit method. Valuations are conducted every three years and interim adjustments to those valuations are made annually.

Actuarial gains and losses are recognised immediately in the statement of recognised income and expense.

Gains or losses on the curtailment or settlement of a defined benefit plan are recognised in profit or loss when the group is demonstrably committed to the curtailment or settlement.

Past service costs are recognised immediately to the extent that the benefits are already vested. Otherwise they are amortised on a straight-line basis over the average period until the amended benefits become vested.

The amount recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and the unrecognised past service costs and reduced by the fair value of plan assets. Any asset is limited to the unrecognised actuarial losses, plus the present value of available refunds and reductions in future contributions to the plan.

To the extent that there is uncertainty as to the entitlement to the surplus, no asset is recognised.

#### 24. Shareholders for equity dividends

Dividends to equity holders are only recognised as a liability when declared and are included as a movement in reserves. Secondary taxation on companies in respect of such dividends are recognised as a liability when the dividends are recognised as a liability and are included in the taxation charge in profit or loss.

#### 25. Provisions

Provisions represent liabilities of uncertain timing or amount.

Provisions are recognised when the group has a present legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made for the amount of the obligation.

Provisions are measured at the expenditure required to settle the present obligation. Where the effect of discounting is material, provisions are measured at their present value using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks for which future cash flow estimates have not been adjusted.

##### Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as a provision. An onerous contract is considered to exist where the group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

##### Restructuring

A restructuring provision is recognised when the group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

##### Warranties

Provisions for warranty costs are recognised at the date of sale of the relevant products, at the estimated expenditure required to settle the group's obligation.

#### 26. Equity

Debt and equity instruments are classified as either financial liabilities or as equity based on the substance of the contractual arrangement.

Equity instruments issued by the group are recorded at the proceeds received, net of direct issue costs.

### Income Statement

#### 27. Revenue

Revenue represents the gross inflow of economic benefits during the period arising in the course of the ordinary activities when those inflows result in increases in equity, other than increases relating to contributions from equity participants. Included in revenue are net invoiced sales to customers for goods and services, rentals from leasing fixed and movable property, commission, hire purchase and finance lease income.

Revenue is measured at the amount received or receivable. Cash and settlement discounts, rebates, VAT and other indirect taxes are excluded from revenue. Where extended terms are granted, interest received is accounted for over the term until payment is received.

Revenue from the rendering of services is measured using the stage of completion method based on the services performed to date as a percentage of the total services to be performed.

Revenue from the rendering of services is recognised when the amount of the revenue, the related costs and the stage of completion can be measured reliably.

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred, when delivery has been made and title has passed, when the amount of the revenue and the related costs can be reliably measured.

Revenue from royalties is recognised on the accrual basis in accordance with the substance of the relevant agreements.

Rental income is accounted for in accordance with section 36 below.

Where the group acts as agent and is remunerated on a commission basis, only the commission is included in revenue. Where the group acts as principal, the total value of business handled is included in revenue.

#### 28. Cost of sales

When inventories are sold, the carrying amount is recognised as part of cost of sales. Any write-down of inventories to net realisable value and all losses of inventories or reversals of previous write downs or losses are recognised in cost of sales in the period the write-down, loss or reversal occurs.

#### 29. Employee benefit costs

The cost of providing employee benefits is accounted for in the period in which the benefits are earned by employees.

The cost of short-term employee benefits is recognised in the period in which the service is rendered and is not discounted. The expected cost of short-term accumulating compensated absences is recognised as an expense as the employees render service that increases their entitlement

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or, in the case of non-accumulating absences, when the absences occur.

The expected cost of profit-sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

### 30. Income from investments

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Dividend income from investments is recognised when the shareholders' right to receive payment has been established.

### 31. Borrowing costs

Borrowing costs (net of investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets) directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are expensed in the period in which they are incurred.

### 32. Exceptional items

Exceptional items cover those amounts, which are not considered to be of an operating/trading nature, and generally include re-measurements due to:

- impairments of goodwill and non-current assets,
- gains and losses on the measurement to fair value less costs to sell (or on the disposal) of assets or disposal groups constituting discontinued operations,
- gains and losses on the measurement to fair value less costs to sell of non-current assets or disposal groups classified as held for sale,
- gains and losses on the disposal of fixed property,
- recycling through profit or loss of foreign currency translation reserves upon disposal of entities whose functional currencies are different to the group's presentation currency,
- recycling through profit or loss of fair value gains and losses previously recognised directly in equity upon the disposal of available-for-sale financial assets and realisation of hedges of a net investment in a foreign operation, and
- the group's proportionate share of exceptional items (determined on the same basis) of associates and joint ventures.

Re-measurements to fair value of other financial instruments (including amounts recycled through profit or loss under cash flow hedges that were previously recognised directly in equity) are not included in exceptional items.

### 33. Taxation

The charge for current taxation is based on the results for the year as adjusted for income that is exempt and

expenses that are not deductible using tax rates that are applicable to the taxable income.

Secondary Taxation on Companies (STC) is recognised as part of the current taxation charge when the related dividend is declared. Deferred taxation is recognised if dividends received in the current year can be offset against future dividend payments to the extent of the reduction of future STC.

Deferred taxation is recognised in profit or loss except when it relates to items credited or charged directly to equity, in which case it is also recognised in equity.

### Transactions and events

#### 34. Hedge accounting

If a fair value hedge meets the conditions for hedge accounting, any gain or loss on the hedged item attributable to the hedged risk is included in the carrying amount of the hedged item and recognised in profit or loss.

If a cash flow hedge meets the conditions for hedge accounting the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognised in profit or loss. A hedge of the foreign currency risk of a firm commitment is designated and accounted for as a cash flow hedge.

If an effective hedge of a forecast transaction subsequently results in the recognition of a financial asset or financial liability, the associated gains or losses recognised in equity are transferred to income in the same period in which the asset or liability affects profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated gains or losses recognised in equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability.

If a hedge of a net investment in a foreign entity meets the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognised in profit or loss. On disposal of a foreign entity, the gain or loss recognised in equity is transferred to profit or loss.

Hedge accounting is discontinued on a prospective basis when the hedge no longer meets the hedge accounting criteria (including when it becomes ineffective), when the hedge instrument is sold, terminated or exercised, when for cash flow hedges, the forecast transaction is no longer expected to occur or when the hedge designation is revoked. Any cumulative gain or loss on the hedging instrument for a forecast transaction is retained in equity until the transaction occurs, unless the transaction is no longer expected to occur, in which case it is transferred to profit or loss for the period.

### 35. Impairment of assets

At each reporting date the carrying amount of the tangible and intangible assets are assessed to determine whether there is any indication that those assets may have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is estimated. Value in use, included in the calculation of the recoverable amount, is estimated taking into account future cash flows, forecast market conditions and the expected lives of the assets.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, its carrying amount is reduced to the higher of its recoverable amount and zero. The impairment loss is first allocated to reduce the carrying amount of goodwill and then to the other assets of the cash generating unit. Subsequent to the recognition of an impairment loss, the depreciation or amortisation charge for the asset is adjusted to allocate its remaining carrying value, less any residual value, over its remaining useful life.

Impairment losses on held-to-maturity financial assets as well as trade and other receivables are determined based on specific and objective evidence that assets are impaired and is measured as the difference between the carrying amount of assets and the present value of the estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Impairment losses are recognised in profit or loss. If an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount but limited to the carrying amount that would have been determined had no impairment loss been recognised in prior years. A reversal of an impairment loss is recognised in profit or loss.

Goodwill and intangible assets with indefinite useful lives or not available for use and the cash generating units to which these assets have been allocated are tested for impairment even if there is no indication of impairment. For the purpose of impairment testing goodwill is allocated to each of the cash generating units expected to benefit from the synergies of the combination at inception of the combination. Impairment losses recognised on goodwill are not subsequently reversed. The attributable amount of goodwill is included in the profit or loss on disposal when the associated business is sold.

### 36. Leasing

#### Classification

Leases are classified as finance leases or operating leases at the inception of the lease.

#### In the capacity of a lessor

Amounts due from a lessee under a finance lease are recognised as receivables at the amount of the net investment in the lease, which includes initial direct costs. Where assets are leased by a manufacturer or dealer, the initial direct costs are expensed. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease or another basis if more representative of the time pattern of the user's benefit. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying value of the leased asset and recognised on a straight-line basis over the term of the lease.

#### In the capacity of a lessee

Finance leases are recognised as assets and liabilities at the lower of the fair value of the asset and the present value of the minimum lease payments at the date of acquisition. Finance costs represent the difference between the total leasing commitments and the fair value of the assets acquired. Finance costs are charged to profit or loss over the term of the lease and at interest rates applicable to the lease on the remaining balance of the obligations.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease or another basis if more representative of the time pattern of the user's benefit. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the term of the lease.

### 37. Government grants and assistance

Government grants are assistance by government in the form of transfers of resources in return for compliance with conditions related to operating activities. Government assistance is action by government designed to provide an economic benefit specific to an entity or range of entities qualifying under certain criteria. "Government" includes government agencies and similar bodies whether local, national or international.

When the conditions attaching to government grants have been complied with and they will be received, they are recognised in profit or loss on a systematic basis over the periods necessary to match them with the related costs. When they are for expenses or losses already incurred, they are recognised in profit or loss immediately. The unrecognised portion at the balance sheet date is presented as deferred income. No value is recognised for government assistance.

### 38. Discontinued operations

The results of discontinued operations are presented separately in the income statement and the assets and

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liabilities associated with these operations are included with Non-current Assets Held for Sale in the balance sheet.

### 39. Share-based payments

#### Equity settled share options

Executive directors and senior executives have been granted equity settled share options in terms of the Barloworld Share Option Scheme. After the date on which the options are exercisable and before the expiry date:

- the options can be exercised to purchase shares for cash or through a loan from the Barloworld Share Purchase Trust in which event the shares issued are accounted for in share capital and share premium at the amount of the exercise price, or
- the options can be ceded to an approved financial institution in which event there is no increase in share capital or share premium until the option is exercised by the financial institution, at which time they are accounted for at the amount of the option price.

Equity settled share based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant and recognised in profit or loss on a straight-line basis over the vesting period, based on the estimated number of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions. Fair value is measured using a binomial pricing model.

#### Cash settled share appreciation rights

Share appreciation rights granted to employees for services rendered or to be rendered are raised as a liability and recognised in profit or loss immediately or, if vesting requirements are applicable, over the vesting period. The liability is measured annually until settled and any changes in value are recognised in profit or loss.

Fair value is measured using a binomial pricing model.

#### Black Economic Empowerment ("BEE")

In a BEE transaction, the share-based payment is measured as the difference between the fair value of the equity instruments granted and the fair value of the cash and other assets received (e.g. the BEE equity credentials) and are recognised as follows:

- in profit or loss at the grant date unless there are service conditions in which case it is recognised over the relevant period of the service conditions
- as part of goodwill where the BEE equity credentials are obtained as part of the net assets acquired in a business combination.

### 40. Treasury shares

Treasury shares are equity instruments of the Company, held by the Company or other members of the consolidated group.

All costs relating to the acquisition of treasury shares as well as gains or losses on disposal or cancellation of treasury shares are recognised directly in equity.

### 41. Insurance contracts

An insurance contract is a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. Certain transactions are entered into by the group as insurer and which falls within this definition. Significant items included are maintenance contracts, guaranteed residual values on sold equipment/vehicles as well as credit life and warranty products sold.

#### Maintenance contracts

Revenue on maintenance contracts is recognised on the percentage of completion method based on the anticipated cost of repairs over the life cycle of the equipment.

#### Guaranteed residual values

Guaranteed residual values are periodically given on repurchase commitments with customers. The likelihood of the repurchase commitments being exercised is assessed at the inception of the contract to determine whether significant risks and rewards have been transferred to the customer and if revenue should be recognised. If significant risks and rewards have not been transferred, revenue is not recognised and the transaction is accounted for as a pre-paid operating lease. Where the initial assessment was made that significant risks and rewards were transferred and revenue was recognised, but subsequent market conditions are considered to change the likelihood of the exercise of the buyback to become probable, the present value of the net expected future outflow is provided for, after taking into consideration any proceeds on subsequent disposal of the equipment. All repurchase commitments as well as the related asset's expected values are disclosed under contingent liabilities.

#### Credit life and warranty products

Premiums are recognised as revenue proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the balance sheet date is recognised as an unearned premium liability. Premiums are reflected before deduction of commission and are gross of any taxes or duties levied on premiums.

Claims and loss adjustment expenses are charged to profit and loss as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. These include direct and indirect claims settlement costs and arise from events that have occurred up to the balance sheet date even if it has not yet been reported to the company. Liabilities for unpaid claims are not discounted and are estimated using the input of assessments for individual cases reported to the group and statistical analyses for claims incurred but not reported as well as the expected ultimate cost of more complex claims that may be affected by external factors (such as court decisions).

Acquisition costs, which include commission and other related expenses, are recognised in the period in which they are incurred.

**42. Financial guarantee contracts**

The group regards financial guarantee contracts as insurance contracts and uses accounting applicable to insurance contracts. Details regarding financial guarantees issued are disclosed under contingent liabilities.

**43. Judgements made by management**

Preparing financial statements in conformity with IFRS requires estimates and assumptions that affect reported amounts and related disclosures. Actual results could differ from these estimates.

Certain accounting policies have been identified as involving particularly complex or subjective judgements or assessments, as follows:

- **Derecognition of finance lease receivables**

The finance lease receivables book in the South African materials handling business was sold during the year. Management assessed that the significant risks and rewards of the book were transferred to the purchaser and the asset was derecognised. Provision has been made for the estimated residual risk arising from a guarantee given to the purchaser.

- **Interests in subsidiaries**

The trusts established to hold the shares awarded in the black economic empowerment transaction to the black non-executive directors, the black managers and the education entity are considered to be controlled by the company. Accordingly the assets and liabilities and the results of these trusts have been consolidated from the date of establishment.

The special purpose entities established to hold the shares and loans related to the strategic partners and community service groups are not considered to be controlled by Barloworld. They are thus not consolidated.

- **Asset lives and residual values**

Property, plant and equipment is depreciated over its useful life taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In reassessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values. Consideration is also given to the extent of current profits and losses on the disposal of similar assets.

- **Deferred taxation assets**

Deferred tax assets are recognised to the extent it is probable that taxable income will be available in future

against which they can be utilised. Five-year business plans are prepared annually and approved by the boards of the company and its major operating subsidiaries. These plans include estimates and assumptions regarding economic growth, interest rates, inflation and competitive forces.

The plans contain profit forecasts and cash flows and these are utilised in the assessment of the recoverability of deferred tax assets. Deferred tax assets are also recognised on STC credits to the extent it is probable that future dividends will utilise these credits.

Management also exercises judgement in assessing the likelihood that business plans will be achieved and that the deferred tax assets are recoverable.

- **Post-employment benefit obligations**

Post-retirement defined benefits are provided for certain existing and former employees. Actuarial valuations are based on assumptions which include employee turnover, mortality rates, the discount rate, the expected long-term rate of return of retirement plan assets, healthcare inflation cost and rates of increase in compensation costs.

Judgement is exercised by management, assisted by advisors, in adjusting mortality rates to take account of actual mortality rates within the schemes.

- **Warranty claims**

Warranties are provided on certain equipment, spare parts and service supplied to customers. Management exercises judgement in establishing provisions required on the basis of claims notified and past experience.

- **Revenue recognition**

The percentage of completion method is utilised to recognise revenue on long-term contracts. Management exercises judgement in calculating the deferred revenue reserve which is based on the anticipated cost of repairs over the life cycle of the equipment applied to the total expected revenue arising from maintenance and repair contracts.

In addition, management exercises judgement in assessing whether significant risks and rewards have been transferred to the customer to permit revenue to be recognised.

Revenue arising from maintenance and repair work in progress is recognised on the percentage of completion basis.

In cases where there is a buy-back, management considers whether the buy-back is set at a level which makes the buy-back substantive. If so, management uses the guidance from IAS 18 with regard to the transfer of risks and rewards for the purposes of revenue recognition. If the buy-back is not considered to be substantive, then it is ignored for the purposes of

## Accounting policies *(continued)*

revenue recognition. If revenue is recognised on a transaction which includes a buy-back, then provision is made on the basis set out in repurchase commitments below as and when such provision is required.

- **Impairment of assets**

Goodwill is considered for impairment at least annually. Property, plant and equipment, and intangible assets are considered for impairment if there is a reason to believe that an impairment may be necessary. Factors taken into consideration in reaching such a decision include the economic viability of the asset itself and where it is a component of a larger economic unit, the viability of that unit itself.

Future cash flows expected to be generated by the assets or cash-generating units are projected, taking into account market conditions and the expected useful lives of the assets. The present value of these cash flows, determined using an appropriate discount rate, is compared to the current net asset value and, if lower, the assets are impaired to the present value. The impairment loss is first allocated to goodwill and then to the other assets of a cash-generating unit.

Cash flows which are utilised in these assessments are extracted from formal five-year business plans which are updated annually. The company utilises the CFROI® valuation model to determine asset and cash-generating unit values supplemented, where appropriate, by discounted cash flow and other valuation techniques.

- **Repurchase commitments**

Buy-back (repurchase) arrangements with customers are periodically concluded. The likelihood of the repurchase commitments being exercised and quantification of the possible loss, if any, on resale of the equipment is assessed at the inception of the contract and at each reporting period. Significant assumptions are made in estimating residual values. These are assessed based on past experience and take into account expected future market conditions and projected disposal values.

#### 44. Sources of estimation uncertainty

There are no significant assumptions made concerning the future or other sources of estimation uncertainty that has been identified as giving rise to a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year.