NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016

1. Accounting policies and presentation of financial statements

1.1 Statement of compliance

The group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), the SAICA financial reporting guides as issued by the Accounting Practices Committee (APC), Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the JSE Limited Listings Requirements and the requirements of the Companies Act of South Africa, 2008.

The financial statements of the company are presented separately from the consolidated financial statements and were approved by the directors on 2 September 2016, the same date as these financial statements. The separate financial statements are available for review and inspection at the registered office of the company.

1.2 Basis of preparation

The group financial statements have been prepared on the historical cost basis, except for the measurement of investment properties, investment property classified as held-for-sale and certain financial instruments at fair value, and incorporate the principal accounting policies set out below.

Item	Measurement basis
Investment property	Fair value
Derivative financial instruments	Fair value
Investment property held-for-sale	Fair value

Fair value adjustments do not affect the determination of distributable earnings, but have an effect on net asset value per share to the extent that such adjustments are made to the carrying values of assets and liabilities. All accounting policies applied in the preparation of these financial statements are consistent with those applied in the consolidated financial statements for the year ended 30 June 2015. Various new accounting standards, or revisions to current accounting standards, have been issued with effective dates applicable to future financial statements. *Refer to note 1.25 – Standards issued but not yet effective*.

1.3 Basis of consolidation

The group financial statements incorporate the financial statements of the company and entities controlled by the company.

Control is achieved when the company:
- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

The group financial statements incorporate the assets, liabilities, income, expenses and cash flows of the group. The results of subsidiaries acquired or disposed of during the year are included in the group financial statements from the date of acquisition or up to the date of disposal, as applicable. All intra-group transactions, unrealised profits and balances between group entities are eliminated on consolidation.

1.4 Business combinations

The group applies the acquisition method in accounting for business combinations. The consideration transferred by the group to obtain control of a subsidiary is calculated as the sum of the acquisition date fair values of assets transferred, liabilities incurred and the equity interests issued by the group, which includes the fair value of any asset or liability arising from the acquisition. Acquisition costs are expensed as incurred.

The group recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been recognised in the acquiree's annual financial statements prior to the acquisition. Assets acquired and liabilities assumed are measured at their acquisition date fair values.

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of (a) fair value of consideration transferred, (b) the recognised amount of any non-controlling interest in the acquiree and (c) acquisition date fair value of any existing equity interest in the acquiree, over the acquisition date fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (ie gain on bargain purchase) is recognised in profit or loss immediately.

1. Accounting policies and presentation of financial statements continued

1.5 Goodwill

Goodwill is carried at cost as established at the date of acquisition less accumulated impairment losses. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

For the purposes of impairment testing, goodwill is allocated to each of the group's cash-generating units that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit.

1.6 Investments in subsidiaries

Subsidiaries are entities over which the group has control.

The company considers whether it has control by taking into account the relevant facts and circumstances, even if the company has less than the majority of the voting rights. It has control over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The following will be considered:

- The size of the company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders
- Potential voting rights held by the company, other vote holders or other parties
- Rights arising from other contractual arrangements
- Any additional facts and circumstances that indicate that the company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at shareholders' meetings.

1.7 Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement which exists when decisions about the relevant activities require unanimous consent of the parties sharing control.

When a group entity transacts with its joint operation, profits and losses resulting from the transactions with the joint operation are recognised in the group's financial statements only to the extent of interests in the joint operation that are not related to the group.

When a group entity undertakes its activities under joint operations, the group as a joint operator recognises in relation to its interest in a joint operation:

- Its assets, including its share of any assets held jointly
- Its liabilities, including its share of any liabilities incurred jointly
- Its revenue from the sale of its share of the output arising from the joint operation
- Its share of the revenue from the sale of the output by the joint operation
- Its expenses, including its share of any expenses incurred jointly.

The group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IFRS applicable to the particular assets, liabilities, revenues and expenses.

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 30 June 2016

1. Accounting policies and presentation of financial statements continued

1.8 Investments in associates and joint ventures

An associate is an entity over which the company can exercise significant influence, through participation in the financial and operating policy decisions of the investee, but where it does not have control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement.

The results, assets and liabilities of associates and joint ventures are incorporated in the financial statements using the equity method of accounting, except when the investment is classified as held-for-sale, in which case it is accounted for in accordance with IFRS 5.

Under the equity method, the investment is initially recorded at cost and thereafter the carrying value is adjusted to recognise the investor's share of the post-acquisition profits or losses of the investee after the date of acquisition, distributions received and any adjustments that are required. The profits or losses are recognised in the statement of profit or loss and other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture.

If the interest that the company has in the joint venture provides the company with a contractual right to receive dividends, the investment is accounted for as a financial instrument and will not be equity accounted. *Refer to note 1.12 – Financial instruments*.

When the reporting period of the investor is different to that of the associate or joint venture, the associate or joint venture prepares for the use of the investor, financial statements as at the same date as the financial statements of the investor.

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

1.9 Building appurtenances and tenant installations

Building appurtenances and tenant installations are carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided on all building appurtenances and tenant installations to write down the cost, less residual value, by equal instalments over their useful lives as follows:
- Tenant installations – period of lease
- Building appurtenances – three to fifteen years.

Subsequent expenditure is capitalised when it is probable that future economic benefits will flow to the group and its cost can be reliably measured. All other expenditure is recognised as an expense in the period in which it is incurred. Gains and losses on the disposal of building appurtenances and tenant installations are recognised in profit or loss and are calculated as the difference between the price and the carrying value of the item sold.

1.10 Investment property

Investment property includes land, buildings and development rights and are held to earn income and/or for capital appreciation.

Investment property is initially recognised at cost including transaction costs. Cost includes initial costs, costs incurred subsequently to extend or refurbish investment property as well as the cost of any development rights.

Investment property is subsequently measured at fair value as determined on a semi-annual basis by an independent registered valuer. The valuations are done on an open-market basis and valuers use the discounted cash flow method. Gains or losses arising from changes in fair value, after deducting the straight-line lease income adjustment, are included in net profit or loss for the period in which they arise. These gains or losses are transferred to non-distributable reserves in the statement of changes in equity.

In instances when investment property is sold, but not yet transferred to the purchaser at year-end, the fair value is determined as the sale price.

Realised gains or losses arising on the disposal of investment properties are recognised in profit or loss for the year and transferred to non-distributable reserves in the statement of changes in equity.

1. Accounting policies and presentation of financial statements continued

1.10 Investment property continued

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the property. Any gain or loss arising on derecognition of the property is included in profit or loss in the period in which the property is derecognised. The gain or loss is calculated as the difference between the net disposal proceeds and the carrying amount of the asset.

1.11 Non-current assets held-for-sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held-for-sale. This condition is regarded as met only when the sale is highly probable and the non-current asset or disposal group is available for sale in its present condition subject only to terms that are usual and customary for sales of such assets. For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset or disposal group.

Investment property classified as held-for-sale is measured in accordance with IAS 40 *Investment Property* at fair value with gains and losses on subsequent measurement being recognised in profit or loss. Disposal groups and non-current assets held-for-sale are presented separately from other assets and liabilities on the statement of financial position.

1.12 Financial instruments

Financial instruments are contracts that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets and financial liabilities are recognised on the statement of financial position when the group becomes party to the contractual provisions of the instrument. The group classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement. Financial assets and financial liabilities are initially measured at fair value. All transaction costs relating to financial instruments measured at fair value through profit or loss are immediately expensed.

Derecognition of financial instruments

The group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or 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. Any interest in transferred financial assets that is created or retained by the group is recognised as a separate asset or liability.

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

Offset

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position, when the group has an enforceable right to set off the recognised amounts, and intends to settle on a net basis or to realise the asset and settle the liability simultaneously.

Subsequent measurement

Subsequent to initial recognition, these instruments are measured as follows:

Financial assets

1.12.1 Cash and cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents are measured at amortised cost. Interest earned on cash invested with financial institutions is recognised on an accrual basis using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 30 June 2016

1. Accounting policies and presentation of financial statements continued

1.12 Financial instruments continued

Financial assets continued

1.12.2 Trade and other receivables

Trade and other receivables are carried at amortised cost less any accumulated impairments. An estimate is made of credit losses based on a review of all outstanding amounts at year-end. Doubtful debts are provided for in the year in which they are identified, with such movement taken to profit or loss for the period. Short-term receivables are measured at original invoice amount when the effect of discounting is immaterial.

1.12.3 Loans receivable

Loans receivable are carried at amortised cost using the effective interest method, less any impairment. Interest earned is recognised on an accrual basis using the effective interest method.

1.12.4 Other investment

An investment is an entity over which the company has no significant influence, through participation in the financial and operating policy decisions of the investee.

Investments are measured at cost less any impairment where the fair value cannot be measured reliably. Impairment charges are recognised in profit or loss. Any impairment losses are transferred to the non-distributable reserves in the statement of changes in equity.

1.12.5 Financial assets – right to receive dividends

Where the group has a contractual right to receive dividends, the financial asset has been designated at fair value through profit or loss (FVTPL). Subsequent to initial recognition, it is measured at fair value and changes therein are recognised in the statement of profit or loss and other comprehensive income.

Any gain or loss on initial recognition is deferred (when its fair value is calculated using significant unobservable inputs) and is recognised in profit or loss only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset.

Financial liabilities

1.12.6 Trade payables

Trade and other payables are measured at amortised cost. Short-term payables are measured at the original invoice amount when the effect of discounting is immaterial.

1.12.7 Non-derivative financial liabilities: Borrowings

Non-derivative financial liabilities, comprising long-term interest-bearing loans, are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost using the effective interest method. 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 group's accounting policy for borrowing costs.

1.12.8 Non-derivative financial liabilities: Financial guarantees

In certain instances, the group provides financial guarantees for loans granted to subsidiaries, joint ventures and other related companies. At year-end, the group has issued guarantees to certain banks in respect of loan facilities granted to related companies. *Refer to note 6 – Investment in joint ventures.*

Derivative instruments

The entity uses derivative financial instruments to hedge its exposure to interest rate risk arising from its financing activities. Derivative instruments have been designated by the group as instruments held for trading and are accounted for at fair value through profit or loss. Gains or losses are transferred to non-distributable reserves in the statement of changes in equity.

The group holds interest rate swap instruments. The fair value of interest rate swaps is the estimated amount that the entity would receive or pay to terminate the swap at the reporting date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

1.13 Impairment

Financial assets

Financial assets other than those at fair value through profit or loss are assessed at each reporting date to determine whether there is any evidence of impairment. 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 flow of that asset. An impairment loss is recognised immediately in profit or loss.

1. Accounting policies and presentation of financial statements continued

1.13 Impairment continued

Non-financial assets

The carrying amounts of the group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount, and is recognised in profit or loss. Goodwill is tested for impairment annually.

An impairment loss is reversed, with the exception of goodwill, if there has been a change in the estimates used to determine the recoverable amount and there is an indication that the impairment loss no longer exists.

An impairment loss is reversed only to the extent that the carrying amount of the asset does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

1.14 Stated capital

Ordinary shares are classified as equity.

External costs directly attributable to the issue of new shares are shown as a deduction from equity.

1.15 Treasury shares

Company shares held by Hyprop Investments Employee Incentive Scheme Proprietary Limited (incorporated for the benefit of employees) that have not yet vested are classified as treasury shares on consolidation and presented as a deduction from equity. These shares are held at cost.

Statement of financial position presentation

On purchase, the cost of the shares acquired is deducted from equity. Subsequently, any gain or loss on the sale or cancellation of the company's own equity instruments is recognised directly in equity.

Statement of profit or loss and other comprehensive income presentation

Both distributions and unrealised losses on own shares are eliminated from group profit for the year.

1.16 Dividends

Dividends to shareholders are recognised directly in equity on the date of declaration. Dividends received from subsidiaries or investee companies are recognised on declaration by the subsidiary or investee company.

1.17 Foreign currency

Foreign currency transactions are translated to the respective functional currency of the group at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on translation are recognised in profit or loss.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the group's presentation currency (Rand) at the exchange rates at the reporting date. The income and expenses of foreign operations are translated to Rand at the dates of the transactions (an average rate is used).

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 30 June 2016

1. Accounting policies and presentation of financial statements continued

1.17 Foreign currency continued

Foreign currency translation reserve

Foreign currency differences on translation of the financial position and results of a foreign operation into Rand are recognised in other comprehensive income, in the foreign currency translation reserve (FCTR). When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to profit and loss as part of the profit or loss on disposal.

1.18 Employee benefits

Short-term benefits

The cost of short-term employee benefits is recognised as an expense during the period in which the employees render the related service.

Short-term employee benefits are measured on an undiscounted basis. The accrual for employee entitlements to salaries, bonuses and annual leave represents the amount which the group has a present legal or constructive obligation to pay as a result of the employees' services provided up to the reporting date.

Long-term benefits

Equity-settled share-based employee remuneration

The group operates equity-settled share-based conditional unit plans (CUP) for its employees.

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair value of employees' services is determined indirectly by reference to the fair value of the equity instruments granted. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions.

All share-based remuneration is ultimately recognised as an expense in profit or loss, with a corresponding increase in equity. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of shares expected to vest.

Post-employment benefits

Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which the group pays contributions to a separate entity and has no legal or constructive obligation to pay further amounts if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The contributions are recognised as an employee benefit expense when the related services have been rendered.

1.19 Revenue

Property portfolio revenue

Property portfolio revenue comprises contractual rental income, operating cost recoveries, income from marketing and promotions and parking income. Contractual rental income (including tenant parking income) is recognised on a straight-line basis over the term of the lease. Income from marketing, promotions and casual parking is recognised when the amounts can be reliably measured.

Turnover rentals (variable rentals based on the turnover achieved by a tenant) are included in revenue when the amounts can be reliably measured.

Interest received

Interest earned on cash invested with financial institutions is recognised on an accrual basis using the effective interest method.

1.20 Borrowing costs

Borrowing costs that are directly attributable to the acquisition or construction of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is substantially ready for its intended use.

Qualifying assets are those that necessarily take a substantial period of time to prepare for their intended use.

The amount of borrowing costs eligible for capitalisation is the actual borrowing costs incurred on funds specifically borrowed in respect of the qualifying asset. Investment income earned on the temporary investment of borrowings pending their expenditure on qualifying assets is deducted from the borrowing cost capitalised. Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are complete.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

1. Accounting policies and presentation of financial statements continued

1.21 Taxation

1.21.1 Current taxation

Hyprop is a REIT (Real Estate Investment Trust) in terms of the South African Income Tax Act (the Act) and in terms of the JSE Listings Requirements. In terms of section 25BB of the Act, the twice yearly dividend declared to Hyprop shareholders is deductible against Hyprop's taxable income. As a consequence of this deduction, South African income taxation is usually reduced to zero, and dividends received by South African Hyprop shareholders are therefore received free of any South African income taxation at a Hyprop level.

Current and deferred taxes are recognised as income or an expense and included in profit or loss for the year. The charge for current taxation includes expected tax payable or receivable on the taxable income or loss for the year and any adjustment for taxation payable or receivable for previous years.

Current taxation liabilities/(assets) for the current and prior periods are measured at the amount expected to be paid to/(recovered from) the taxation authorities, using the taxation rates and taxation laws that have been enacted or substantively enacted by the reporting date.

1.21.2 Deferred taxation

Deferred taxation is recognised for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred taxation is not recognised for the following temporary differences:

- The initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit
- Goodwill that arises on initial recognition in a business combination
- Differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future.

A deferred taxation asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred taxation assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related taxation benefit will be realised.

Deferred taxation assets and liabilities are measured at the taxation rates that are expected to apply to the period when the asset is realised or the liability is settled, based on taxation rates and taxation laws that have been enacted or substantively enacted by the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. For this purpose, the carrying amount of investment property measured at fair value is presumed to be recovered through sale, and the group has not rebutted this presumption.

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

Deferred taxation assets and liabilities are offset if there is a legally enforceable right to offset current taxation liabilities and assets, and they relate to income taxes levied by the same taxation authority on the same taxable entity.

1.22 Segment reporting

The group determines and presents operating segments based on information that is provided internally to the executive management committee (exco) and to the board of directors. The exco reviews internal management reports of each segment monthly, while the board reviews internal management reports in respect of each segment at least quarterly.

On a primary basis, the operations are organised into the following business segments: Shopping centres, value centres, standalone offices, investments in sub-Saharan Africa (excluding South Africa) and investments in South-Eastern Europe.

1.23 Basic, headline and distributable earnings per share

Earnings per share are calculated based on the weighted average number of shares in issue for the year and profit attributable to shareholders. Headline earnings per share are calculated in terms of the requirements set out in Circular 2/2013 issued by SAICA.

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 30 June 2016

1. Accounting policies and presentation of financial statements continued

1.24 Key estimations and uncertainties

Estimates and assumptions are an integral part of financial reporting and as such have an impact on the amounts reported for the group's income, expenses, assets and liabilities. Judgement in these areas is based on historical experience and reasonable expectations relating to future events.

Information on the key estimations and uncertainties that have the most significant effect on amounts recognised is set out below:

Investment property valuations

The valuation of investment properties requires judgement in the estimation of future cash flows, appropriate discount rates and capitalisation rates. *Refer to note 2 – Investment property*.

Interests in co-ownerships

In terms of the co-ownership agreements for Canal Walk and The Glen, material capital expenditure requires mutual consent of the co-owners. The majority of capital expenditure (subject to an annual increase in terms of an inflation adjusted formula) undertaken is material, and accordingly these centres are not considered to be solely controlled by Hyprop.

The interests in these centres are therefore treated as joint operations.

Business combination versus asset acquisition

During the year the group acquired interests in Ikeja City Mall in Lagos, Nigeria as well as Delta City Malls in Belgrade, Serbia and Podgorica, Montenegro. Management assessed the acquisitions during the year and concluded that the acquisitions are business combinations in terms of IFRS 3 *Business combinations* and were therefore accounted for in terms of that standard. In the opinion of management, the properties acquired constitute businesses as defined in terms of IFRS 3 *Business combinations*.

Control over an investee

Hystead Limited (Hystead) is the investment holding company for Hyprop's investments in South-Eastern Europe. Hyprop has a 60% equity interest in Hystead.

Management assessed the acquisition of its interest in Hystead and whether it has control over Hystead. It was concluded that the company has joint control over Hystead.

Investments in joint ventures – equity-accounted investments versus financial instruments

Management assessed the acquisition of Hystead during the year to determine whether it should form part of joint ventures and be equity accounted or whether the contractual right to receive dividends should be accounted for as a financial asset.

It was concluded that by virtue of the contractual right to receive dividends the investment in Hystead should be accounted for as a financial asset.

1.25 Standards issued but not yet effective

At the date of approval of these financial statements, certain new accounting standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been early adopted by the group.

Management anticipate that all of the pronouncements will be adopted in the group's accounting policies for the first period beginning after the effective date of the pronouncements. Information on new standards, amendments and interpretations that are expected to be relevant to the group's financial statements or those for which the impact has not yet been assessed, is provided. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the group's financial statements namely:

- IFRS 14 *Regulatory deferral accounts*
- IAS 16 *Property, plant and equipment* and IAS 38 *Intangible assets* – clarification of acceptable methods of depreciation and amortisation
- IFRS 10 *Consolidated financial statements* and IAS 28 *Investments in associates and joint ventures* – sale or contribution of assets between an investor and its associate or joint venture and investment entities: applying the consolidation exception
- IFRS 11 *Joint arrangements* – accounting for acquisitions of additional interests in joint operations
- IFRS 5 *Non-current assets held-for-sale and discontinued operations* – changes in methods of disposal
- IFRS 7 *Financial instruments: disclosures* – continuing involvement for servicing contracts and offsetting disclosures in condensed interim financial statements
- IAS 19 *Employee benefits* – discount rate: regional market issue.
- IFRS 15 *Revenue from contracts with customers*
- IAS 12 *Income taxes* – recognition of deferred tax assets for unrealised losses

1. Accounting policies and presentation of financial statements continued

1.25 Standards issued but not yet effective continued

NEW OR AMENDED STANDARD AND EFFECTIVE DATE	SUMMARY OF THE REQUIREMENTS	POSSIBLE IMPACT ON GROUP
IFRS 9 *Financial Instruments* (Annual periods beginning on or after 1 January 2018). Early adoption is permitted.	On 24 July 2014, the IASB issued the final IFRS 9 *Financial Instruments* standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement*.	**Measurement and classification:** While the changes to the measurement bases may seem to have a muted effect, as the group already measures financial instruments at amortised cost and at fair value though profit or loss (FVTPL), the criteria for classification into these categories are significantly different. This may result in changes in classification between amortised cost and FVTPL. More specific assessment of these impacts will follow closer to the implementation date of the standard. **Impairment:** In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model in IAS 39 to an "expected credit loss" model, which is expected to increase the provision for bad debts recognised in the group as the forward-looking component may introduce additional losses. **Effective interest:** Effective interest has also moved from being calculated on gross balances outstanding per IAS 39 to being calculated on the amortised cost net of impairment adjustments, per the expected credit loss model. This is expected to reduce the amount of interest accrued. **Hedge accounting:** The incorporation of a hedge accounting chapter in IFRS 9 is done with limited changes to (a) increase the eligibility of both hedged items and hedging instruments and (b) introducing a principle-based approach to assessing hedge effectiveness. It is not expected to have a significant effect on the recognition and measurement of the group's hedges.
IFRS 16 *Leases* (Annual periods beginning on or after 1 January 2019). Early adoption is permitted only if the entity also adopts IFRS 15. The transitional requirements are different for lessees and lessors.	IFRS 16 was published in January 2016. It sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, ie the customer (lessee) and the supplier (lessor). IFRS 16 replaces the previous leases standard, IAS 17 *Leases*, and related interpretations. IFRS 16 has one model for lessees which will result in almost all leases being included on the statement of financial position. No significant changes have been included for lessors.	**As lessor:** This new standard is not expected to have a significant impact on how the group (as lessor) accounts for leases due to the carry forward of the lessor accounting model from IAS 17. However, the group anticipates an impact as a result of the enhanced disclosures for lessors required by IFRS 16 namely: components of lease income and risk management with respect to exposure to residual asset risk. **As lessee:** In the less common instance where the group is a lessee, we do not anticipate significant changes to the accounting for those leases as the single leasehold property in the group is already capitalised in terms of IAS 40. However, we do anticipate changes to record the related liabilities.