Notes to the consolidated annual financial statements continued

for the year ended 30 September

30. Insurance contracts continued

Significant assumptions and risks arising from insurance contracts

Maintenance contracts

Maintenance contracts are offered to customers in the equipment and automotive segments. The contracts are managed internally through ongoing contract performance reviews, review of costs and regular fleet inspections. Risks arising from maintenance contracts includes component lives, component failure and cost of labour. The contracts consist of a variety of forms but generally include cover for regular maintenance as well as for repairs due to breakdowns and component failure which is not covered by manufacturer's warranties or other external maintenance plans. The amounts above include the estimated portion of contracts that meet the definition of an insurance contract. Revenue is recognised on the percentage of completion method based on the anticipated cost of repairs over the life cycle of the equipment/vehicles. If the costs incurred exceed the revenue over the expected life of the policy, the future losses are accounted for immediately in profit and loss based on the present value of the contract loss.

In automotive the assets and liabilities are measured based on actuarial valuations done and in equipment they are based on cash flow projections.

Financial risk mainly relates to credit risk but credit quality of customers is generally considered to be good and similar to the rest of the group's operations. Risks are spread over a large diversity of customers, fleets of equipment and vehicles and geographically in southern Africa and Europe.

31. Financial instruments

The group's financial instruments consist mainly of deposits with banks, short-term investments, accounts receivable and payable, bank borrowings, money and capital market borrowings, leases, hire-purchase agreements discounted with recourse and derivatives. Details of the amounts discounted with recourse are included in note 30. Derivative instruments are used by the group for hedging purposes. Such instruments include forward exchange, currency option contracts and interest rate swap agreements. The group does not speculate in the trading of derivative instruments.

		Notes	2015 Rm	2014 Rm	2013 Rm
31.1	**Summary of financial instruments**				
31.1.1	*Summary of the carrying and fair value of financial instruments*				
	Carrying value of financial instruments by category:				
	Financial assets:				
	Financial assets at fair value through profit or loss				
	– Designated as such at initial recognition	7, 10	**45**	45	46
	– Held-for-trading items	7, 10	**59**	35	5
	Held to maturity investments	7, 10	**367**		
	Available-for-sale financial assets	7	**5**	5	5
	Loans and receivables	7, 10, 11	**10 656**	11 581	9 154
	Derivative assets designated as effective hedging instruments	7, 10	**77**	59	51
	Finance lease receivables	6, 10	**400**	269	252
	Total carrying value of financial assets		**11 609**	11 993	9 512
	Financial liabilities:				
	Financial liabilities at fair value through profit or loss				
	– Designated as such at initial recognition	16, 17			24
	Financial liabilities measured at amortised cost	14, 16, 17, 18	**21 340**	19 799	18 435
	Derivative liabilities designated as effective hedging instruments	16, 17, 18	**20**	15	6
	Total carrying value of financial liabilities		**21 360**	19 814	18 465

Notes to the consolidated annual financial statements continued

for the year ended 30 September

	2015 Rm	2014 Rm	2013 Rm
31. Financial instruments continued			
31.1 Summary of financial instruments continued			
31.1.1 Summary of the carrying and fair value of financial instruments continued			
Carrying value of financial instruments by class:			
Financial assets:			
Trade receivables			
– Industry	**6 136**	5 569	4 803
– Government	**419**	394	381
– Consumers	**644**	614	586
Other loans and receivables and cash balances	**3 823**	5 004	3 382
Finance lease receivables	**400**	269	252
Derivatives (including items designated as effective hedging instruments)			
– Forward exchange contracts	**136**	94	50
– Other derivatives			4
Other financial assets at fair value	**50**	50	53
Total carrying value of financial assets	**11 609**	11 993	9 512
Financial liabilities:			
Trade payables			
– Principals	**2 903**	3 041	2 503
– Other suppliers	**5 823**	6 089	6 065
Other non-interest-bearing payables	**352**	319	309
Derivatives (including items designated as effective hedging instruments)			
– Forward exchange contracts	**20**	15	6
– Other derivatives			16
Other financial liabilities at fair value			8
Interest-bearing debt measured at amortised cost	**12 262**	10 349	9 558
Total carrying value of financial liabilities	**21 360**	19 814	18 465
Fair value of financial instruments by class:			
Financial assets:			
Trade receivables			
– Industry	**6 136**	5 569	4 803
– Government	**419**	394	381
– Consumers	**644**	614	586
Other loans and receivables and cash balances	**3 823**	5 004	3 382
Finance lease receivables	**400**	269	252
Derivatives (including items designated as effective hedging instruments)			
– Forward exchange contracts	**136**	94	50
– Other derivatives			4
Other financial assets at fair value	**50**	50	53
Total fair value of financial assets	**11 609**	11 993	9 512
Financial liabilities:			
Trade payables			
– Principals	**2 903**	3 041	2 503
– Other suppliers	**5 824**	5 402	6 066
Other non-interest-bearing payables	**352**	319	309
Derivatives (including items designated as effective hedging instruments)			
– Forward exchange contracts	**20**	15	6
– Other derivatives			15
Other financial liabilities at fair value			8
Interest-bearing debt measured at amortised cost	**12 356**	10 819	9 925
Total fair value of financial liabilities	**21 455**	19 598	18 832

All financial instruments are carried at fair value or amounts that approximate fair value, except for the interest-bearing borrowings, which are carried at amortised cost. The carrying amounts for investments, cash, cash equivalents as well as the current portion of receivables, payables and interest-bearing borrowings approximate fair value due to the short-term nature of these instruments. The fair values have been determined using available market information and discounted cash flows.

Notes to the consolidated annual financial statements continued

for the year ended 30 September

31. Financial instruments continued

31.1 Summary of financial instruments continued

31.1.2 Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets. The markets from which these quoted prices are obtained are the bonds market, the stock exchange as well other similar markets.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices). The valuation techniques used in deriving level 2 fair values are discounted cash flows. The discounted cash flows are delivered using rates that appropriately reflects the different risks of the various counterparties in relation to the financial instrument. Significant unobservable inputs are long-term revenue and profit projections as well as management's experience and knowledge of the market conditions. Inputs used and assumptions made in relation to the discounted cash flow model is based on macro-economic indicators consistent with external sources of information.
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs). The valuation techniques used in deriving level 3 fair values are discounted cash flows as well as the net asset value approach of the investment that is being valued. This information is based on unobservable market data, and adjusted for based on management's experience and knowledge of the investment.

	2015			
	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Financial assets at fair value through profit or loss				
Financial assets designated at fair value through profit or loss	59		45	104
Available-for-sale financial assets				
Shares			5	5
Derivative assets designated as effective hedging instruments	77			77
Total	136		50	186
Financial liabilities at fair value through profit or loss				
Derivatives		20		20
Total		20		20

Notes to the consolidated annual financial statements continued

for the year ended 30 September

31. Financial instruments continued

31.1 Summary of financial instruments continued

31.1.2 Fair value measurements recognised in the statement of financial position continued

	2014			
	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Financial assets at fair value through profit or loss				
Financial assets designated at fair value through profit or loss	35		45	80
Available-for-sale financial assets				
Shares			5	5
Derivative assets designated as effective hedging instruments	59			59
Total	94		50	144
Financial liabilities at fair value through profit or loss				
Other derivative financial liabilities	1			1
Financial liabilities designated at fair value through profit or loss	1			1
Derivatives	13			13
Total	15			15

	2013			
	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Financial assets at fair value through profit or loss				
Financial assets designated at fair value through profit or loss	3	2	46	51
Available-for-sale financial assets				
Shares			5	5
Derivative financial assets	51			51
Total	54	2	51	107
Financial liabilities at fair value through profit or loss				
Other derivative financial liabilities	5	16		21
Financial liabilities designated at fair value through profit or loss		8	1	9
Total	5	24	1	30

There was a transfer of derivatives from level 1 to level 2 in the current year as the FECs are not quoted and the value needs to be calculated.

Notes to the consolidated annual financial statements continued

for the year ended 30 September

31. Financial instruments continued

31.1 Summary of financial instruments continued

31.1.2 *Fair value measurements recognised in the statement of financial position* continued

Reconciliation of level 3 fair value measurements

	Available-for-sale unlisted shares Rm	Fair value of investment in cell captives Rm
Balance 30 September 2013	5	46
Total gains/(losses) recognised in profit and loss		(1)
Balance 30 September 2014	5	45
Total gains/(losses) recognised in profit and loss		
Balance 30 September 2015	5	45

Total gains/(losses) recognised in profit and loss relates to unrealised gains relating to financial assets that are measured at fair value at the end of the period.

31.2 Financial risk management

a. Capital risk management

The group manages its capital to ensure that all entities in the group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of debt and equity. The overall strategy remains unchanged from the previous year.

The capital structure of the group consists of debt (refer notes 14 and 18), cash and cash equivalents (note 11) and equity attributable to equity holders of Barloworld Limited, comprising issued capital (note 13), reserves and retained earnings (statement of changes in equity).

A finance committee consisting of senior executives of the group meets on a regular basis to review the capital structure based on the cost of capital and the risks associated with each class of capital, analyse currency and interest rate exposure and to re-evaluate treasury management strategies in the context of most recent economic conditions and forecasts. The group has targeted gearing ratios for each major business segment as disclosed in note 1.1. The group's various treasury operations provide the group with access to local money markets and provide group subsidiaries with the benefit of bulk financing and depositing.

b. Market risk

(i) Currency risk

Trade commitments

The group's currency exposure management policy for the southern African operations is to hedge substantially all material foreign currency trade commitments for which customers have or will not be accepting the currency risk. In respect of offshore operations, where there is a traditionally stable relationship between the functional and transacting currencies, the need to take foreign exchange cover is at the discretion of the divisional board. Each division manages its own trade exposure within the overall framework of the group policy. In this regard the group has entered into certain forward exchange contracts which do not relate to specific items appearing in the statement of financial position, but were entered into to cover foreign commitments not yet due or proceeds not yet received. The risk of having to close out these contracts is considered to be low. The group also invested in government bonds to hedge against the devaluation of local currencies in African countries.

Net currency exposure and sensitivity analysis

The following table represents the extent to which the group has monetary assets and liabilities in currencies other than the group companies' functional currency. The information is shown inclusive of the impact of forward contracts and options in place to hedge the foreign currency exposures. Based on the net exposure below it is estimated that a simultaneous 10% change in all foreign currency exchange rates against divisional functional currency will impact the fair value of the net monetary assets/liabilities of the group to the extent of R509 million (2014: R480 million; 2013: R527 million), of which R94 million (2014: R160 million; 2013: R225 million) will impact other comprehensive income and R415 million (2014: R320 million; 2013: R302 million) will impact profit or loss.

Notes to the consolidated annual financial statements continued

for the year ended 30 September

31. Financial instruments continued

31.2 Financial risk management continued

b. Market risk continued

(i) Currency risk continued

Net foreign currency monetary assets/(liabilities)	SA rand Rm	Euro Rm	British sterling Rm	US dollar Rm	Other currencies Rm	Total Rm
	Currency of assets/(liabilities)					
Functional currency of group operation:						
SA rand	**n/a**	**210**	**44**	**1 998**		**2 252**
British sterling			**n/a**	**3 028**		**3 028**
Other African currencies	**(47)**			**(145)**		**(192)**
As at 30 September 2015	**(47)**	**210**	**44**	**4 881**		**5 088**
SA rand	n/a	308	19	2 323	3	2 654
Euro					(3)	(3)
British sterling		7	n/a	2 207		2 214
Other African currencies	(44)			(25)		(68)
As at 30 September 2014	(44)	315	19	4 506		4 797
SA rand	n/a	275	36	3 067	4	3 382
Euro		n/a		(11)	(12)	(23)
British sterling	(4)	24	n/a	1 895		1 915
US dollar		20		n/a		20
Other African currencies				(20)		(20)
As at 30 September 2013	(4)	319	36	4 931	(8)	5 273

	Fair value		
	2015 Rm	2014 Rm	2013 Rm
Hedge accounting applied in respect of foreign currency risk			
Cash flow hedges			
– Fair value of asset – foreign currency forward exchange contracts	**116**	80	44

The foreign currency contracts have been acquired to hedge the underlying currency risk arising from a firm commitment to acquire equipment machines as well as the forecast purchases of spare parts. All cash flows are expected to occur and affect profit or loss within the next 12 months.

Notes to the consolidated annual financial statements continued

for the year ended 30 September

31. Financial instruments continued

31.2 Financial risk management continued

b. Market risk continued

(ii) Interest rate risk

The group manages the exposure to interest rate risk by maintaining a balance between fixed and floating rate borrowings. The interest rate characteristics of new borrowings and the refinancing of existing borrowings are structured according to expected movements in interest rates. There has been no change in the current year to this approach.

The interest rate profile of total borrowings is as follows:

	Currency	Year of redemption/ repayment	Interest rate (%)	2015 Rm	2014 Rm	2013 Rm
Liabilities in foreign currencies						
Bank overdrafts and short-term loans	USD		Libor* + 2%, 3-month Libor* + 4.5%	**99**	75	252
	AOA					37
	ZMK		Bank of Zambia policy rate (12%) +3%	**39**		9
	MZM		Prime (MT)** – 1% pa, Prime (MT)** – 1.5% pa	**104**	27	29
	RUR		Internal rate + 3.5%, 1 month Mosprime + 2.85%	**181**	123	162
	AUD					418
	EUR		Euribor*** 12 month + 5.68%, Libor* + 1.5%, Euribor*** 3 month + 3%	**219**	46	16
	NAM					1
	BWP		Prime – 1.5%	**30**	50	12
Total short-term foreign currency liabilities (note 18)				**672**	321	935
Unsecured loans	Other	2017	Prime – 1.5%	**234**	196	150
	USD	2016	3-month Libor* + 4.5%	**5**	14	23
	GBP		Libor* + 1% to Libor* + 1.3%	**456**		
Liabilities under capitalised finance leases	EUR	2019	Euribor*** 12 month + 5.68%	**34**	39	44
Total long-term foreign currency liabilities (note 14)				**729**	249	217
Liabilities in South African rand						
Bank borrowings and bank overdrafts				**3 679**	4 074	2 033
Total South African rand liabilities (note 18)				**3 679**	4 074	2 033
Secured loans		2010 – 2023	7.3 – 9	**176**	157	75
Unsecured loans		2010 – 2019	5.25 – 11.67	**8 623**	7 444	6 544
Liabilities under capitalised finance leases		2010 – 2022	6.7 – 12.3	**1 417**	1 214	828
Total South African rand liabilities (note 14)				**10 216**	8 815	7 447
Total South African rand and foreign currency liabilities (note 14 and 18)				**10 945**	9 064	7 664
Interest rates						
Loans at fixed rates of interest				**3 492**	3 614	3 693
Loans linked to South African money market rates				**6 912**	5 413	3 948
Loans linked to offshore money markets				**541**	37	23
				10 945	9 064	7 664

**Libor – London interbank offered rate*
***Mozambique short-term bank instrument*
****Euribor – European interbank offered rate*

Notes to the consolidated annual financial statements continued

for the year ended 30 September

31. Financial instruments continued

31.2 Financial risk management continued

b. Market risk continued

(ii) Interest rate risk continued

	2015 Rm	2014 Rm	2013 Rm
Interest rate sensitivity analysis			
Impact of a 1% increase in South African interest rates			
– charge to profit or loss	**75**	61	51
Impact of a 1% increase in offshore interest rates			
– charge to profit or loss	**7**	6	10
(iii) Other price risk			
The group is exposed to price risk arising out of the following:			
Barloworld share price			
The group has a liability to option holders in terms of the Share Appreciation Rights Scheme (refer note 32.3)			
Barloworld share price sensitivity analysis			
Impact of a 10% increase in the Barloworld share price as at 30 September			
– charge to profit or loss in respect of the liability	**3**	12	42

There has been no change during the current year in the group approach to managing other price risk.

c. Credit risk

Potential areas of credit risk consist of trade receivables and short-term cash investments. Trade receivables consist mainly of a large and widespread customer base. Group companies monitor the financial position of their customers on an ongoing basis. Where considered appropriate, use is made of credit guarantee insurance. The granting of credit is controlled by application and account limits. Provision is made for bad debts and at the year end management did not consider there to be any material credit risk exposure that was not already covered by credit guarantee insurance or a bad debt provision. It is group policy to deposit short-term cash investments with major banks and financial institutions with strong credit ratings.

The credit quality of assets that are neither past due nor impaired is considered to be good. Historical default rates vary per division from 0.4% to 5.0%.

	2015 Rm	2014 Rm	2013 Rm
Maximum exposure to credit risk (excluding collateral held), exceeding the carrying amount			
Trade receivables			
Other items, including financial guarantees	**1 343**	1 720	1 668
	1 343	1 720	1 668
Carrying value of financial assets, the terms of which have been renegotiated			
Trade receivables			
– Industry	**3**	1	8
– Government		36	38

Notes to the consolidated annual financial statements continued

for the year ended 30 September

31. Financial instruments continued

31.2 Financial risk management continued

d. Liquidity risk

The group manages liquidity risk by monitoring forecast cash flows, maintaining a balance between long-term and short-term debt and ensuring that adequate unutilised borrowing facilities are maintained. Unutilised bank facilities amounted to R7.7 billion (2014: R8.4 billion; 2013: R7.9 billion). There has been no change to this approach during the current year.

Maturity profile of financial liabilities

The maturity profile of the financial instruments is summarised as follows (based on contractual undiscounted cash flows):

	Repayable during the year ending 30 September			
	Total owing Rm	**2016 Rm**	**2016 to 2020 Rm**	**2020 and onwards Rm**
Interest-bearing liabilities	**15 546**	**4 545**	**8 960**	**2 039**
Trade payables and other non-interest-bearing liabilities	**9 863**	**9 863**		

	2015 Rm	2014 Rm	2013 Rm
32. Share incentive schemes and share-based payments			
32.1 Financial effect of share-based payment transactions			
Income statement effect			
B-BBEE expense arising from share-based payment transactions	**251**	1	(5)
Compensation expense arising from equity and cash-settled forfeitable share plan	**23**	26	30
Compensation expense arising from equity and cash-settled share appreciation rights incentive plan	**59**	75	159
Share-based payment expense included in operating profit	**333**	102	184
Taxation benefit on forfeitable share plan, share appreciation rights and B-BBEE transactions	**(36)**	(28)	(53)
Net share-based payment expense after taxation	**297**	74	131
Financial position effect			
Liability raised for cash-settled shares (to be incurred within one to five years)	**(59)**	(60)	(188)
Deferred taxation asset raised on share-based payment transactions	**64**	49	71
Net (reduction)/increase in shareholders' interest as a result of share-based payment transactions	**5**	(11)	(117)