

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2019

1 Accounting policies

Corporate information

The financial statements of Tiger Brands Limited (the company) and the Tiger Brands group (the group) for the year ended 30 September 2019 were authorised for issue in accordance with a resolution of the directors on 21 November 2019. Tiger Brands Limited is incorporated and domiciled in South Africa, where the shares are publicly traded.

Basis of preparation

The consolidated and separate financial statements have been prepared on the historical-cost basis, except for items measured at fair value as indicated below and in accordance with the JSE Listings Requirements. The separate and consolidated financial statements are stated in millions.

Statement of compliance

The consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), IFRIC Interpretations (IFRS Interpretations Committee), the Companies Act of South Africa and the SAICA Financial Guides as issued by the Accounting Practices Committee and the Financial Pronouncements as issued by the Financial Reporting Standards Council.

Basis of consolidation

The consolidated financial statements include the financial statements of the company and its subsidiaries (as well as structured entities controlled by the group or company). The financial statements of the subsidiaries are prepared for the same reporting period using consistent accounting policies. Where the financial year end of a subsidiary is not coterminous with that of the group or the accounting policies adopted by the subsidiary differ from the group's accounting policies, the financial statements of the subsidiary are adjusted in accordance with the group's accounting policies and year end.

In assessing control (direct or *de facto* control) the following is considered:

- › Power over the investee;
- › Exposure, or rights, to variable returns from its involvement with the investee; and
- › The ability to use its power over the investee to affect the amount of the investor's returns.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

Losses are attributed to the non-controlling interest even if that results in a deficit balance.

Foreign currencies

Foreign currency transactions

The consolidated financial statements are presented in South African rand, which is the company's functional and presentation currency. Each foreign entity in the group determines its own functional currency. Transactions in foreign currencies are initially recorded in the functional currency at the rate of exchange ruling at the date of the transaction.

Translation of foreign currency transactions

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Exchange differences are taken to profit or loss, except for differences arising on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to other comprehensive income, in the consolidated annual financial statements, until the disposal of the net investment, at which time they are recognised in profit or loss. Tax charges and credits attributable to such exchange differences are also accounted for in other comprehensive income.

If non-monetary items measured in a foreign currency are carried at historical cost, the exchange rate used is the rate applicable at the initial transaction date. If they are carried at fair value, the rate used is the rate at the date when the fair value was determined. The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item (ie translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

Foreign operations

At the reporting date the assets and liabilities of the foreign operations are translated into the presentation currency of the group (rand) at the exchange rate ruling at the reporting date. The income statement is translated at the weighted average exchange rate for the year. Exchange differences are taken directly to a separate component of other comprehensive income. On disposal of a foreign operation, the deferred cumulative amount recognised in other comprehensive income relating to that particular foreign operation is recognised in the income statement.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 30 September 2019

1 Accounting policies continued

On 11 October 2019, the Public Accountants and Auditors Board of Zimbabwe classified Zimbabwe as a hyperinflationary economy in accordance with the provisions of IAS 29 *Financial Reporting in Hyperinflationary Economies* (IAS 29), applicable to entities operating in Zimbabwe with financial periods ended on or after 1 July 2019.

Tiger Brands concurs with this classification and have accounted for the associate National Foods Holdings Limited in terms of IAS 29. Refer note 2 of Annexure B for more details.

Goodwill and fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of a foreign operation are treated as assets and liabilities of that foreign operation, and are translated at the closing rate.

Interest in group companies

Business combinations

Business combinations are accounted for using the acquisition method. The value of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, is recognised in accordance with IFRS 3.58 where the acquirer shall account for changes in the fair value of contingent consideration that are not measurement period adjustments as follows:

- a. Contingent consideration classified as equity shall not be remeasured and its subsequent settlement shall be accounted for within equity
- b. Other contingent consideration that:
 - I. Is within the scope of IAS 39 shall be measured at fair value at each reporting date and changes in fair value shall be recognised in profit or loss in accordance with that IFRS
 - II. Is not within the scope of IAS 39 shall be measured at fair value at each reporting date and changes in fair value shall be recognised in profit or loss.

The company carries its investments in subsidiaries and associate companies at cost less accumulated impairment losses.

Associates

An associate is an entity over which the group has significant influence through participation in the financial and operating policy decisions. The entity is neither a subsidiary nor a joint arrangement.

Associates are accounted for using the equity method of accounting in the consolidated financial statements. Goodwill relating to an associate is included in the carrying amount of the investment and is not tested separately for impairment.

The income statement reflects the group's share of the associate's profit or loss. However, an associate's losses in excess of the group's interest are not recognised. Where an associate recognises an entry directly in other comprehensive income, the group in turn recognises its share in the consolidated other comprehensive income. Profits and losses resulting from transactions between the group and associates are eliminated to the extent of the interest in the underlying associate.

After application of the equity method, each investment is assessed for indicators of impairment. If applicable, the impairment is calculated as the difference between the current carrying value and the higher of its value in use or fair value less cost of disposal. Impairment losses are recognised in profit or loss.

Where an associate's reporting date differs from the group's, the associate prepares financial statements as of the same date as the group. If this is impracticable, financial statements are used where the date difference is no more than three months. Adjustments are made for significant transactions between the relevant dates. Where the associate's accounting policies differ from those of the group, appropriate adjustments are made to conform the accounting policies.

Segment reporting

The group has reportable segments that comprise the structure used by the chief operating decision-maker (CODM) to make key operating decisions and assess performance. The group's reportable segments are operating segments that are differentiated by the activities that each undertakes and the products they manufacture and market (referred to as business segments).

1 Accounting policies continued

The group evaluates the performance of its reportable segments based on operating profit. The group accounts for intersegment sales and transfers as if the sales and transfers were entered into under the same terms and conditions as would have been entered into in a market-related transaction.

The financial information of the group's reportable segments is reported to the CODM for purposes of making decisions about allocating resources to the segment and assessing its performance.

A number of segments comprising international entities are included in the "International operations" portion of "Exports and International" as they individually don't meet the qualitative thresholds indicated in IFRS 8 *Operating Segments*.

Property, plant and equipment

Property, plant and equipment are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment losses. Expenditure incurred on major inspection and overhaul, or to replace an item, is accounted for as separate components if the recognition criteria are met.

Depreciation is calculated on a straight-line basis, on the difference between the cost and residual value of an asset, over its useful life. Depreciation starts when the asset is available for use. An asset's residual value, useful life and depreciation method are reviewed at least at each financial year end. Any adjustments are accounted for prospectively.

The following useful lives have been estimated:

Freehold land	Not depreciated
Freehold buildings	
› general purpose	40 years
› specialised	20 – 50 years
Leasehold improvements	Shorter of the lease term or useful life
Vehicles and computer equipment	3 – 5 years
Plant and equipment	5 – 15 years

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

Goodwill and intangible assets

Goodwill

Goodwill is initially measured at cost being the excess of the consideration transferred over the group's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference in profit or loss is recognised as a "gain on bargain purchase". Goodwill relating to subsidiaries is recognised as an asset and is subsequently measured at cost less accumulated impairment losses.

Goodwill is reviewed annually for impairment, or more frequently if there is an indicator of impairment. Goodwill is allocated to cash-generating units expected to benefit from the synergies of the combination. When the recoverable amount of a cash-generating unit is less than its carrying amount, an impairment loss is recognised in profit or loss. The impairment loss is allocated first to any goodwill assigned to the unit, and then to other assets of the unit *pro rata* on the basis of their carrying values. Impairment losses recognised for goodwill cannot be reversed in subsequent periods.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of an intangible asset acquired in a business combination is the fair value at the date of acquisition. Subsequently, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Unless internally generated, costs meet the criteria for development costs eligible for capitalisation in terms of IAS 38 (refer to the research and development costs accounting policy on page 22); all internally generated intangible assets are expensed as incurred.

The useful lives of intangible assets are either finite or indefinite.

Intangible assets with finite lives are amortised over their useful life and assessed for impairment when there is an indication that the asset may be impaired.

The amortisation period and method are reviewed at each financial year end. Changes in the expected useful life or pattern of consumption of future benefits are accounted for prospectively.

The following useful lives have been estimated:

Trademarks and other	1 – 20 years
Customer and supplier-related intangibles	5 – 15 years

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 30 September 2019

1 Accounting policies continued

Intangible assets with indefinite useful lives are not amortised but are tested annually for impairment either individually or at the cash-generating level. The useful lives are also reviewed each period to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment to a finite life is accounted for prospectively.

Certain trademarks have been assessed to have indefinite useful lives, as presently there is no foreseeable limit to the period over which the assets can be expected to generate cash flows for the group.

Research and development costs

Research costs, being the investigation undertaken with the prospect of gaining new knowledge and understanding, are recognised as an expense in profit or loss as they are incurred.

Development costs arise on the application of research findings to plan or design for the production of new or substantially improved materials, products or services, before the start of commercial production. Development costs are only capitalised when the group can demonstrate the technical feasibility of completing the project, its intention and ability to complete the project and use or sell the materials, products or services flowing from the project, how the project will generate future economic benefits, the availability of sufficient resources and the ability to measure reliably the expenditure during development, otherwise development costs are recognised as an expense in profit or loss.

During the period of development, the asset is tested annually for impairment. Following the initial recognition of the development costs, the asset is carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation begins when development is complete. The development costs are amortised over the period of expected future sales.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from its use.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

Impairment of non-financial assets

The group assesses tangible and intangible assets, excluding goodwill, development assets not yet available

for use and indefinite life intangible assets, at each reporting date for an indication that an asset may be impaired. If such an indication exists, the recoverable amount is estimated as the higher of the fair value less cost of disposal and the value in use. If the carrying value exceeds the recoverable amount, the asset is impaired and is written down to the recoverable amount. 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.

In assessing value in use, the estimated future cash flows are discounted to their present value using an appropriate pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less cost of disposal, the fair value is determined in terms of IFRS 13. This is measured using the assumptions that market participants would use when pricing the asset, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there is a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset is increased to the revised recoverable amount, but not in excess of what the carrying amount would have been had there been no impairment. A reversal of an impairment loss is recognised directly in profit or loss.

Financial instruments

Financial instruments are initially recognised when the group becomes a party to the contract. The group has adopted trade date accounting for "regular way" purchases or sales of financial assets. The trade date is the date that the group commits to purchase or sell an asset.

Financial instruments are initially measured at fair value plus transaction costs, except that transaction costs in respect of financial instruments classified at fair value through profit or loss are expensed immediately.

1 Accounting policies continued

Transaction costs are the incremental costs that are directly attributable to the acquisition of a financial instrument, ie those costs that would not have been incurred had the instrument not been acquired.

(Pre 1 October 2018)

Classification

The group's classification of financial assets and financial liabilities are as follows:

Description of asset/liability	Classification
Investments	Available-for-sale
Derivatives	Financial instruments at fair value through profit or loss
Loans and advances receivable	Loans and receivables
Loans to subsidiaries	Loans and receivables
Trade and other receivables	Loans and receivables
Cash and cash equivalents	Loans and receivables
Loans payable and borrowings	Financial liabilities at amortised cost
Trade and other payables	Financial liabilities at amortised cost
Loans from subsidiaries	Financial liabilities at amortised cost

Available-for-sale financial assets

These are non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables or held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are subsequently measured at fair value with unrealised gains or losses recognised directly in other comprehensive income. When such a financial asset is disposed of, the cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss. Interest earned on the financial asset is recognised in profit or loss using the effective interest rate method. Dividends earned are recognised in profit or loss when the right of receipt has been established.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, loans and receivables are measured at amortised cost, using the effective interest rate method, less impairment losses.

Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Financial liabilities at amortised cost

After initial recognition, liabilities that are not carried at fair value through profit or loss are measured at amortised cost using the effective interest rate method.

Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

Fair value

The fair value of listed investments is the quoted market bid price at the close of business on the reporting date. For unlisted investments, the fair value is determined using appropriate valuation techniques. The group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Such techniques include using recent arm's length market transactions, reference to the current market value of similar instruments, discounted cash flow analysis and option-pricing models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in note 31.

Impairment of financial assets

The group assesses at each reporting date whether there is objective evidence indicating that a financial asset, or group of financial assets, is impaired.

Available-for-sale financial assets

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. "Significant" is to be evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Factors taken into consideration would include external market and economic outlook reports, observable trends and cyclicity.

If an available-for-sale asset is impaired, the respective other comprehensive income amount is transferred to profit or loss.

Reversals in respect of equity instruments classified as available-for-sale are not recognised in profit or loss. Reversals of impairment losses on debt instruments are reversed through profit or loss based on the extent of the impairment loss previously recognised.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 30 September 2019

1 Accounting policies continued

Loans and receivables

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future expected credit losses) discounted at the asset's original effective interest rate.

The group assesses whether there is objective evidence of impairment. In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the group will not be able to collect all of the amounts due under the original terms of the sale. The carrying amount of the asset is reduced through the use of an allowance account, and is recognised in profit or loss. Impaired debts are derecognised when they are assessed as uncollectible.

If, in a subsequent period, the amount of the impairment decreases and the decrease relates objectively to an event occurring after the impairment, it is reversed to the extent that the carrying value does not exceed the amortised cost. Any subsequent reversal of an impairment loss is recognised in profit or loss.

Derivative instruments

Derivatives are financial instruments whose value changes in response to an underlying factor, requires little or no net investment and are settled at a future date. Derivatives, other than those arising on designated hedges, are measured at fair value with changes in fair value being recognised in profit or loss.

(Post 1 October 2018)

Classification

The group's classification of financial assets and financial liabilities are as follows:

Description of asset/liability	Classification
Other investments	Financial instruments at fair value through other comprehensive income (OCI) and fair value through profit or loss (FVTPL)
Derivatives	Financial instruments at fair value through profit or loss
Loans	Amortised cost/fair value through profit or loss*

Loans to subsidiaries	Amortised cost
Trade and other receivables	Amortised cost
Cash and cash equivalents	Amortised cost
Loans payable and borrowings	Financial liabilities at amortised cost
Trade and other payables	Financial liabilities at amortised cost
Loans from subsidiaries	Financial liabilities at amortised cost

* Loans to some empowerment entities in the company are non-recourse in nature. The loan and the investment in the company are the only source of finance in these entities. As such, the loans fail "solely payments of principal and interest" (SPPI) and have been classified as FVTPL under IFRS 9.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics. With the exception of trade receivables that do not contain a significant financing component or for which the group has applied the practical expedient, the group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are SPPI on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The group manages its financial assets in order to generate cash flows primarily from collecting contractual cash flows.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in the following categories:

- › Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- › Financial assets at fair value through profit or loss
- › Financial assets at amortised cost.

1 Accounting policies continued

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the group. The group measures financial assets at amortised cost if both of the following conditions are met:

- › The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- › The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The group's financial assets at amortised cost includes trade receivables, cash and cash equivalents and loans.

Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition on equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The group elected to classify irrevocably its non-listed equity investments under this category.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading (derivatives) and non-recourse loans to empowerment entities. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial

assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

Financial liabilities at amortised cost

After initial recognition, liabilities that are not carried at fair value through profit or loss are measured at amortised cost using the effective interest rate method.

Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

Fair value

The fair value of listed investments is the quoted market bid price at the close of business on the reporting date. For unlisted investments, the fair value is determined using appropriate valuation techniques. The group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Such techniques include using recent arm's length market transactions, reference to the current market value of similar instruments, discounted cash flow analysis and option-pricing models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in note 31.

Impairment of financial assets

The group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 30 September 2019

1 Accounting policies continued

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the group applies a simplified approach in calculating ECLs. Therefore, the group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. In terms of intercompany amounts and investments, the group evaluates potential impairments based on the net asset value of the subsidiary company and its liquidity.

The group considers a financial asset in default when contractual payments are 60 days past due. However, in certain cases, the group may also consider a financial asset to be in default when internal or external information indicates that the group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows. Factors taken into consideration would include external market and economic outlook reports, observable trends and cyclicity.

In terms of intercompany amounts, the group evaluates potential impairments based on the nature of the entity, and its liquidity and solvency position. Even with the consideration of forward-looking information relevant to the industries and environment in which the group companies operate, the credit risk relating to these entities is very low and no/limited provisioning is required. No further IFRS 7/ECL disclosure is provided in this regard.

(Pre and post 1 October 2018) Hedge accounting

At the inception of a hedge relationship, the group formally designates and documents the hedge relationship to which the group wishes to apply hedge accounting and the risk management objective and strategy for

undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Fair value hedges

Fair value hedges cover the exposure to changes in the fair value of a recognised asset or liability, or an unrecognised firm commitment (except for foreign currency risk). Foreign currency risk of an unrecognised firm commitment is accounted for as a cash flow hedge.

The gain or loss on the hedged item adjusts the carrying amount of the hedged item and is recognised immediately in profit or loss. The gain or loss from remeasuring the hedging instrument at fair value is also recognised in profit or loss.

When an unrecognised firm commitment is designated as a hedged item, the change in the fair value of the firm commitment is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss. The change in the fair value of the hedging instrument is also recognised in profit or loss in the "Operating income before impairments and abnormal items" line in the income statement.

The group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the group revokes the designation.

Cash flow hedges

Cash flow hedges cover the exposure to variability in cash flows that are attributable to a particular risk associated with:

- › A recognised asset or liability
- › A highly probable forecast transaction
- › The foreign currency risk in an unrecognised firm commitment.

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in other comprehensive income, while any ineffective portion is recognised in profit or loss.

Amounts taken to other comprehensive income are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged income or financial asset or liability is recognised or when the forecast sale or purchase occurs. Where the hedged item is the cost of a non-financial asset or liability, the amount deferred in other comprehensive income is transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, amounts previously recognised in other comprehensive income are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation is revoked, amounts previously recognised in other comprehensive income remain in other comprehensive income until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to profit or loss.

Hedges of a net investment in a foreign operation

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for similarly to cash flow hedges. On consolidation, gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised in other comprehensive income, while any gains or losses relating to the ineffective portion are recognised in profit or loss. On disposal of the foreign operation, the cumulative gain or loss recognised in other comprehensive income is transferred to profit or loss.

Derecognition of financial assets and financial liabilities

Financial assets or parts thereof are derecognised when:

- › The right to receive the cash flows have expired
- › The right to receive the cash flows is retained, but an obligation to pay them to a third party under a “pass-through” arrangement is assumed
- › The group transfers the right to receive the cash flows, and also transfers either all the risks and rewards, or control over the asset.

Financial liabilities are derecognised when the obligation is discharged, cancelled or expired.

Non-current assets held for sale and discontinued operations

An item is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale

in its present condition. For a sale to be highly probable, management must be committed to the sale at a price that is reasonable to its current fair value and an active programme to locate a buyer and complete the plan must be initiated. This should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Assets classified as held for sale are not subsequently depreciated and are held at the lower of their carrying value and fair value less cost to sell.

A discontinued operation is a separate major line of business, separate component or geographical area of operation that has been disposed of, or classified as held for sale, as part of a single coordinated plan. A subsidiary acquired exclusively with a view to resale and that meets the criteria of a non-current asset held for sale is also defined as a discontinued operation.

In the consolidated income statement of the reporting period and of the comparable period, income and expenses from discontinued operations are reported separate from income and expenses from continuing activities down to the level of profit after taxes, even when the group retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the income statement.

Inventories

Inventories are stated at the lower of cost or net realisable value. Costs incurred in bringing each product to its present location and conditions are accounted for as follows:

Raw materials:	Purchase cost on a first-in, first-out basis.
Finished goods and work-in-progress:	Cost of direct material and labour and a proportion of manufacturing overheads based on normal operating capacity, but excluding borrowing costs.

Consumables are written down with regard to their age, condition and utility.

Costs of inventories include the transfer from other comprehensive income of gains and losses on qualifying cash flow hedges in respect of the purchases of raw materials.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated completion and selling costs.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 30 September 2019

1 Accounting policies continued

Provisions

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 of the amount of the obligation.

Leases

Group as a lessee

At inception date an arrangement is assessed to determine whether it is, or contains, a lease. An arrangement is accounted for as a lease where it is dependent on the use of a specific asset and it conveys the right to use that asset.

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred from the lessor to the group as lessee. Finance lease assets and liabilities are recognised at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Finance lease payments are allocated, using the effective interest rate method, between the lease finance cost, which is included in financing costs, and the capital repayment, which reduces the liability to the lessor.

Capitalised lease assets are depreciated in line with the group's stated depreciation policy for each asset. If there is no reasonable certainty that the group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of its estimated useful life and lease term.

Operating leases are those leases which do not fall within the scope of the definition of a finance lease. Operating lease rentals are charged against trading profit on a straight-line basis over the lease term.

Group as a lessor

Leases in which the group does not transfer substantially all the risks and benefits of ownership as an asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Revenue

Revenue comprises sale of goods. Revenue is measured at the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods, net of value added tax and internal revenue which is eliminated on consolidation. Normal discounts, volume

rebates and settlement discounts are treated as variable consideration, which is estimated upfront and adjusted for in the transaction price accordingly. Payments to customers such as promotional allowances and rebates are deducted from revenue. If such a payment relates to a period covering more than one financial year, the payment is recognised as a contract asset and is utilised over the related period of transferring control over goods sold to the customer. Returns and refunds are accepted from customers based on individual trade term agreements, and are not significant to the group.

Sale of goods

Revenue from the sale of goods is recognised when the transfer of control has passed to the buyer when the performance obligation is satisfied. For domestic and international operations, the performance obligation is generally satisfied upon delivery of goods and for export operations, the performance obligation is generally satisfied upon shipment of goods.

Financing components on sales with a payment term of 12 months or less from the transfer of control over goods until payment date (or vice versa) are not adjusted for the time value of money as allowed by the practical expedient explained in IFRS 15.63.

With regards to unsatisfied performance obligations, the group applied the practical expedient relinquishing disclosure for contracts with a duration of one year or less.

Dividend income

Dividend income is recognised when the group's right to receive payment is established. Non-resident shareholders' taxation is provided in respect of foreign dividends receivable, where applicable.

Interest received

For all financial instruments measured at amortised cost, interest received or expensed is recorded using the effective interest rate, which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest received is included in finance income in the income statement.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

1 Accounting policies continued

Abnormal items

Abnormal items are items of income and expenditure which are not directly attributable to normal operations or where their size or nature are such that additional disclosure is considered appropriate.

Taxation

The income tax expense represents the sum of current tax payable (both current and deferred).

Normal tax – current

The normal tax is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible. Normal tax may include underprovisions or overprovisions relating to prior year taxation. The group's liability for normal tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Normal tax relating to items recognised outside profit or loss is recognised outside profit or loss. Normal tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Normal tax – deferred

Deferred tax is calculated on the liability method.

Deferred tax liabilities are recognised for taxable temporary differences except:

- › Where the “initial recognition exception” applies
- › In respect of outside temporary differences relating to investments in subsidiaries.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, where it is probable that the asset will be utilised in the foreseeable future except:

- › Where the “initial recognition exception” applies
- › In respect of outside temporary differences relating to investment in subsidiaries.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent it has become probable that future taxable profit will allow the asset to be utilised.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised based on tax rates and tax laws that have been enacted or substantively enacted by the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Dividend withholding tax

A dividend withholding tax of 20% is withheld on behalf of the taxation authority on dividend distributions where applicable. The net amount payable to the taxation authority is included as part of trade and other payables at the time a dividend is declared.

Value added tax

Revenues, expenses and assets are recognised net of the amount of value added tax except:

- › Where the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable
- › Receivables and payables that are stated with the amount of value added tax included.

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Employee benefits

A liability is recognised when an employee has rendered services for benefits to be paid in the future, and an expense when the entity consumes the economic benefit arising from the service provided by the employee.

In respect of defined contribution plans, the contribution paid by the company is recognised as an expense.

In respect of defined benefit plans, the company's contributions are based on the recommendations of independent actuaries and the liability is measured using the projected unit credit method.

Remeasurements, comprising actuarial gains and losses, the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 30 September 2019

1 Accounting policies continued

Past service costs are recognised in profit or loss on the earlier of:

- › The date of the plan amendment or curtailment
- › The date that the group recognises related restructuring costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The group recognises the following changes in the net defined benefit obligation under “cost of sales”, “administration expenses” and “selling and distribution expenses” in the consolidated statement of profit or loss (by function):

- › Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- › Net interest expense or income.

Post-retirement medical obligations

The group provides post-retirement healthcare benefits to certain of its retirees based on the qualifying employee remaining in service up to retirement age in the form of a defined benefit medical plan. The expected costs of these benefits are accrued over the period of employment, using the projected unit credit method. Valuations are based on assumptions which include employee turnover, mortality rates, discount rate based on current bond yields of appropriate terms, healthcare inflation costs and rates of increase in salary costs. Valuations of these obligations are carried out by independent qualified actuaries.

Actuarial gains or losses are recognised in the same manner as those of defined benefit pension obligations noted in the previous accounting policy.

Share-based payments

Certain employees (including senior executives) of the group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (“equity-settled transactions”) or share appreciation rights that are classified as (“cash-settled transactions”).

Equity-settled and cash-settled share options **Equity-settled transactions**

Under the scheme, executives and selected managers of Tiger Brands Limited and its subsidiaries are offered, on an annual basis, a weighted combination of share appreciation rights, performance shares, restricted shares linked to the annual cash bonus scheme (bonus matching) and restricted shares linked to a deferred portion of bonuses received by these employees. All these components are accounted for as equity-settled share-based payments in addition to the General Employee

Share Option Plan portion and the Black Managers Participation Right Scheme.

Shares awarded to employees in terms of the rules of the Tiger Brands Long-Term Incentive Plan (LTIP) are measured by reference to the fair value at the date on which they are granted. The fair value is determined by an external valuer using a modified version of the Black-Schöles model or Monte-Carlo simulation, further details of which are given in Annexure D.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (“the vesting date”). The cumulative expense recognised reflects the extent to which the vesting period has expired and the group’s best estimate of the number of equity instruments that will ultimately vest. The income statement charge for a period represents the movement in the cumulative expense at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where an equity-settled award is cancelled (other than forfeiture), it is treated as if it had vested on the date of cancellation, and any unrecognised expense recognised immediately. If a new award is substituted and designated as a replacement for the cancelled award, the cancelled and new awards are treated as if they were a modification of the original award, as described above.

The dilutive effect of outstanding equity-settled options is reflected as additional share dilution in the computation of earnings and headline earnings per share.

Cash-settled transactions

The cost of cash-settled transactions such as the General Employee Share Option Plan portion is measured initially at fair value at the grant date using a modified version of the Black-Schöles model, taking into account the terms and conditions upon which the instruments were granted (refer to Annexure D). This fair value is expensed over the period until vesting with recognition of a corresponding liability. The liability is remeasured at each reporting date up to and including the settlement date with changes in fair value recognised in profit or loss.

1 Accounting policies *continued*

Accounting for BEE transactions

Where equity instruments are issued to a black economic empowerment (BEE) party at less than fair value, the instruments are accounted for as share-based payments in terms of the stated accounting policy.

A restriction on the BEE party to transfer the equity instrument subsequent to its vesting is not treated as a vesting condition, but is factored into the fair value determination of the instrument.

Treasury shares

Shares in Tiger Brands Limited held by the group are classified within total equity as treasury shares. The shares acquired by the Black Managers Trust (I and II) are accounted for as treasury shares in line with the consolidation requirement for special-purpose entities. Treasury shares are treated as a deduction from the issued and weighted average number of shares for earnings per share and headline earnings per share purposes, and the cost price of the shares is reflected as a separate component of capital and reserves in the statement of financial position. Dividends received on treasury shares are eliminated on consolidation. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of treasury shares. Consideration received or paid in respect of treasury shares is recognised in equity.

Contingent assets and contingent liabilities

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the company. Contingent assets are not recognised as assets on the statement of financial position, but appropriate disclosure is provided in the notes to the financial statements.

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the company. Alternatively, it may be a present obligation that arises from past events but is not recognised because an outflow of economic benefits to settle the obligation is not probable, or the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities are not recognised as liabilities unless they are acquired as part of a business combination, but disclosed.

Events after the reporting date

Recognised amounts in the financial statements are adjusted to reflect significant events arising after the reporting date, but before the financial statements are

authorised for issue, provided there is evidence of conditions that existed at the reporting date. Events after the reporting date that are indicative of conditions that arose after the reporting date are dealt with by way of note 35.

Significant accounting judgements and estimates

Judgements

In the process of applying the group's accounting policies, management has made the following judgements, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements.

Consolidation of structured entities

The structured entities established in terms of the BEE transaction implemented in October 2005 and October 2009, have been consolidated in the group results with the exception of The Tiger Foundation Trust, Thusani Trust and Dipuno ESD Foundation SPV. These entities are not consolidated as the board comprises primarily of independent trustees who are appointed to make all necessary decisions in terms of beneficiaries, funding and other matters.

For the entities that are consolidated, the substance of the relationship between the company and these entities has been assessed and the decision made that they are controlled entities, mainly due to the fact that they have been formed to carry out specific objectives and that they will operate in terms of the autopilot principles as set out in IFRS 12.

Assessing control (direct and de facto) of associates

The conclusion regarding control or significant influence relating to associates is reassessed on an annual basis. In performing this assessment, the directors determine whether or not the group has control over the respective investee based on whether the group has the practical ability to direct the significant activities unilaterally.

In making this assessment, the following factors are considered:

- › The group's shareholding in the investee relative to other investors
- › The relative size of and concentration of other shareholders
- › The inability of the group to unilaterally appoint the majority of board members of the investee
- › The absence of related key management between the group and the investee
- › Composition of the investee's board and board appointees of the group
- › The lack of any contractual or legal rights conferred upon the group by the investee or any other shareholder of the investee to direct its activities.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 30 September 2019

1 Accounting policies continued

Detailed disclosures of non-controlling interests

The group does not have subsidiaries that have a material non-controlling interest in the context of the group and accordingly a detailed non-controlling interest disclosure is not required in the current year in terms of IFRS 12 *Disclosure of Interests in Other Entities*. In determining whether or not any non-controlling interests are material, the group considered the share of the individual non-controlling interests in the consolidated net assets of the group. In addition, the total non-controlling interest is below 10% of the group's consolidated net assets and hence considered not to be material to the group.

Detailed disclosures of investment in associates

The group does have associate interests that are, in aggregate, material in the context of the group, and accordingly detailed disclosure requirements in terms of IFRS 12 *Disclosure of Interests in Other Entities* are assessed on an annual basis. In determining whether or not any individual associate is material, the group considers a combination of the share of the individual associate interest in the consolidated profits, other comprehensive income, headline earnings as well as total assets of the group. If any of these contributions exceed 10%, it is concluded as individually material.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in note 17.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed.

IFRS 15: Revenue from Contracts with Customers

The policies were changed in accordance with the transitional provisions in 2017, but without making use of the practical expedients while adopting the standards. The group has certain customers that may receive cash-based incentives or credits, which are accounted for as variable consideration. The estimation of variable consideration is measured on an expected value method based on past history. This relates to returns, refunds and similar

obligations. Judgement is applied in establishing whether or not a payment relates to a payment to a customer to be deducted from revenue versus a payment for a distinct good or service bought.

Impairment assessment of goodwill, tangible and intangible assets

Goodwill and indefinite life intangible assets are tested for impairment annually or more frequently if there is an indicator of impairment. Tangible assets and finite life intangible assets are tested when there is an indicator of impairment. When identifying impairment indicators, management considers the impact of changes in competitors, technological obsolescence, discontinuance of products, market changes, legal changes, operating environments and other circumstances that could indicate that impairment exists. This requires management to make significant judgements concerning the existence of impairment indicators, identification of cash-generating units and estimates of projected cash flows and fair value less costs of disposal.

The group applies the impairment assessment to its cash-generating units. Management's analysis of cash-generating units involves an assessment of a group of assets' ability to independently generate cash inflows and involves analysing the extent to which different products make use of the same assets.

The calculation of the recoverable amount requires the use of estimates and assumptions concerning the future cash flows which are inherently uncertain and could change over time. Recoverable amount is calculated using the discounted cash flow valuation method when determining value in use. Key assumptions on which management has based its determination of recoverable amount include the weighted average cost of capital, projected revenues and gross margins. In addition, changes in economic factors, such as discount rates, could also impact this calculation. Further details are given in note 13.

Residual values and useful lives of tangible and intangible assets

Residual values and useful lives of tangible and intangible assets are assessed on an annual basis. Estimates and judgements in this regard are based on historical experience and expectations of the manner in which assets are to be used, together with expected proceeds likely to be realised when assets are disposed of at the end of their useful lives. Such expectations could change over time and therefore impact both depreciation charges and carrying values of tangible and intangible assets in the future. Further details are given in notes 11 and 12.

1 Accounting policies continued

Fair value of share allocations

In calculating the amount to be expensed as a share-based payment, the group was required to calculate the fair value of the equity instruments granted to participants. This fair value was calculated by applying a valuation model, which is in itself judgemental and takes into account certain inherently uncertain assumptions (detailed in Annexure D).

Pension and other post-employment benefits

The cost of defined benefit pension plans and other post-employment medical benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Further details are given in notes 28 and 29.

Provisions

Best estimates, being the amount that the group would rationally pay to settle the obligation, are recognised as provisions at the reporting date. Risks, uncertainties and future events, such as changes in law and technology, are taken into account by management in determining the best estimates. Where the effect of discounting is material, provisions are discounted. The discount rate used is the pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability, all of which requires management estimation.

The establishment and review of the provisions require significant judgement by management as to whether or not a reliable estimate can be made of the amount of the obligation.

The group is required to record provisions for legal or constructive contingencies when the contingency is probable of occurring and the amount of the loss can be reasonably estimated. Liabilities provided for legal matters require judgements regarding projected outcomes and ranges of losses based on historical experience and recommendations of legal counsel. Litigation is, however, unpredictable and actual costs incurred could differ materially from those estimated at the reporting date. Further details are given in note 30.

Net investment in foreign operations

Certain loans with the group's foreign investments are designated as part of the group's net investment as they are not expected to be repaid in the foreseeable future. This results in the foreign exchange differences on the portion of the loans that are viewed as "capital contributed" being recorded in equity under the Foreign Currency Translation Reserve as required per IAS 21 *The Effects of Changes in Foreign Exchange Rates*, as opposed to being recognised in the statement of profit or loss. This designation is reassessed on an annual basis.

Value Added Meats (VAMP)

Some indicative offers were received in respect of the sale of the VAMP business and the formal due diligence process has commenced. As such, the determination of whether the VAMP business should be disclosed and measured as held for sale in terms of IFRS 5 as at 30 September 2019 is a significant judgement area. In applying this judgement, specific consideration was given to whether it is highly probable that the sale will be completed within one year from 30 September 2019. Given the early stages of the due diligence process and the uncertainties inherent in the VAMP business and the general South African economy, it was determined that this threshold was not met and therefore IFRS 5 was not applied at 30 September 2019.

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of IFRS 9 *Financial Instruments*.

IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 and addresses the classification, measurement and derecognition of financial assets and liabilities. IFRS 9 introduces new rules for hedge accounting and a new impairment model for financial assets.

The group has adopted IFRS 9 (excluding new hedge accounting requirements) and applied the new rules using a modified retrospective approach from 1 October 2018. Comparatives for 2018 have not been restated.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 30 September 2019

1 Accounting policies continued

Classification and measurement

Given the nature of the entity's financial instruments, the adoption of IFRS 9 did not have a significant impact on the classification and measurement as detailed in the table below.

	IFRS 9	IAS 39
Other investments	FVOCI without recycling	Available-for-sale
Trade and other receivables	Amortised cost	Loans and receivables
Amounts owed by subsidiaries	Amortised cost	Loans and receivables
Loans	Amortised cost/FVTPL*	Loans and receivables
Cash and cash equivalents	Amortised cost	Loans and receivables
Derivatives	FVTPL	FVTPL
Trade and other payables	Amortised cost	Amortised cost
Borrowings	Amortised cost	Amortised cost
Amounts owed to subsidiaries	Amortised cost	Amortised cost

* Loans to some empowerment entities (as reflected in notes 15 and 16) in the company are non-recourse in nature. The loan and the investment in the company are the only source of finance in the empowerment entities. As such, the loans fail SPPI and have been classified as FVTPL under IFRS 9. There has been no significant change in the measurement of the loans as the underlying investment in the company was considered in measuring/impairing the loans prior to the adoption of IFRS 9.

Impairment

In terms of IFRS 9, the group has applied the ECL model rather than the incurred loss model. The calculation of ECLs incorporates forward-looking variables which include potential risks in the current economic environment, historic trends and management judgement. The group did not present an adjustment to opening retained earnings and its impairment losses/reversals determined in accordance with IFRS 9 separately in the statement of profit or loss as the amounts are not material. The reason why the impact was not material was due to the fact that a large percentage of the receivables book is covered by credit insurance and therefore there is limited credit risk even when considering forward-looking variables which include potential risks in the current economic environment, historic trend and expert management judgement.

In terms of intercompany amounts, the group evaluates the nature of the entity and its liquidity and solvency position. Even with the consideration of forward-looking information relevant to industries and environment in which the group companies operate, the credit risk relating to these entities is very low and no limited provisioning is required.

Standards and interpretations not yet effective

The group has not applied the following applicable IFRS and IFRIC Interpretations that have been issued during the year but are not yet effective and will be adopted by the group as and when they become effective:

IFRS 16 Leases

IFRS 16 introduces significant changes to lease accounting as it removes the distinction between operating and finance leases under IAS 17 and requires a lessee to recognise a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. IFRS 16 will be effective for the group for the financial year commencing 1 October 2019.

IFRS 16 will impact most significantly the group's leases relating to property, plant and equipment and vehicles. The group has elected to apply IFRS 16 using the modified retrospective approach. As prescribed by IFRS 16, lease liabilities are measured at the present value of the remaining lease payments discounted at the incremental borrowing rate at the date of initial application. The group has elected to measure right-of-use assets on transition date at their carrying amounts as if IFRS 16 had applied since the lease commencement dates, discounted using the incremental borrowing rate at the date of initial application. Right-of-use assets relating to new leases are measured at the amount of initial measurement of the lease liability plus initial direct costs. As part of the modified retrospective transition approach, the group has elected to apply the practical expedient which allows a single discount rate to be applied to a portfolio of leases with reasonably similar characteristics.

As an accounting policy election, the group will apply the following recognition exemptions, which allow for certain lease payments to be expensed over the lease term as opposed to recognising a right-of-use asset and related lease liability on the lease commencement date:

- Short-term leases – these are leases with a lease term of 12 months or less
- Leases of low value assets – these are leases where the underlying asset is of low value.

The group's assessment determined that the right-of-use asset and lease liability to be recognised on adoption of the standard will amount to R400,7 million and R463,4 million respectively.

The net impact on profit or loss is not expected to be material. Rental expense currently disclosed as part of operating expenditure will be replaced with depreciation and finance costs.

Other standards not yet effective, the impact is as follows:

Standard	Effective date*	Impact
IAS 19 <i>Plan amendment, curtailment or settlement – Amendments</i>	1 January 2019	The amendments are not expected to have a material impact on the group.
IFRIC 23 <i>Uncertainty over Income Tax treatments</i>	1 January 2019	The amendments are not expected to have a material impact on the group.
<i>Definition of a business</i> – amendments to IFRS 3	1 January 2020	The amendments are not expected to have a material impact on the group.
<i>Definition of material</i> – amendments to IAS 1 and IAS 8	1 January 2020	The amendments are not expected to have a material impact on the group.
Conceptual framework financial reporting	1 January 2020	The amendments are not expected to have a material impact on the group.

* Effective for annual periods beginning on or after the specified date.