

40. Related parties

Identification of related parties

The Group has a related party relationship with its subsidiaries, associates and joint ventures. Key management personnel have been defined as the executive and non-executive directors of the Company. The definition of key management includes the close members of family of key management personnel and any other entity over which key management exercise control. Close members of family are those family members who may be expected to influence, or be influenced by that individual in their dealings with the Group. They may include the individual's domestic partner and children, the children of the individual's domestic partner, and dependents of the individual or the individual's domestic partner.

Transactions with key management personnel

Independent non-executive directors do not participate in the Group's share appreciation rights schemes or conditional share awards.

Details pertaining to executive and non-executive directors' compensations are set out in Annexure B. Directors' remuneration in total is included in note 2.

The Group encourages its employees to purchase goods and services from Group companies. These transactions are generally conducted on terms no more favourable than those entered into with third parties on an arm's-length basis, although in some cases, nominal discounts are granted. Transactions with key management personnel are conducted on similar terms. No abnormal or non-commercial credit terms are allowed, and no impairments were recognised in relation to any transactions with key management personnel during the year, nor have they resulted in any non-performing debts at the year end.

Similar policies are applied to key management personnel at subsidiary level who are not defined as key management personnel at the Group level.

Certain of the directors of the Group are also non-executive directors of other public companies which may transact with the Group. The relevant directors do not believe they have significant influence over the financial or operational policies of those companies. Those companies are thus not regarded as related parties.

The following transactions were made on terms equivalent to those that prevail in arm's-length transactions between subsidiaries of the Group and key management personnel (as defined above) and/or organisations in which key management personnel have significant influence:

	2019 R'000	2018 R'000
<i>Transactions with associates</i>		
The following transactions were made on terms equivalent to those that prevail in arm's-length transactions between subsidiaries and associates of the Group		
Sales and services provided by the Group	314 281	294 572
Purchases	7	12 968
Outstanding amounts due to the Group at year end included in advances to associates	19	19
Outstanding amounts due to the Group at year end included in trade receivables	41 354	42 163
Guarantees issued	–	16 000

Details of effective interest, investments and loans to associates are disclosed in note 18.

41. Accounting estimates and judgements

The board of directors has considered the Group's critical accounting policies, key sources of uncertainty and areas where critical accounting judgements were required in applying the Group's accounting policies.

1. Critical accounting policies

The Group audit committee is satisfied that the critical accounting policies are appropriate to the Group.

2. Key sources of estimation uncertainty

Post-retirement obligations

The Trustees have agreed to allocate any future surplus (deficit) arising from experience of the Defined Benefit in-service member pool to the employer surplus account. We have not made any allowance for the allocation as at 30 June 2019. The amount to be allocated can only be determined at a statutory valuation date and must be allocated to the employer surplus account by the Trustees. The amount allocated will come through as a gain or loss in the next valuation period. This is consistent with the methodology applied at the previous valuation date.

Notes to the consolidated financial statements (continued)

for the year ended 30 June

41. Accounting estimates and judgements (continued)

2. Key sources of estimation uncertainty (continued)

Property, plant and equipment, and rental fleet

The residual values of these assets are reviewed annually after considering future market conditions, the remaining life of the asset and projected disposal values. The estimation of the useful lives is based on historic performance as well as expectation about future use and, therefore, requires a degree of judgement to be applied. The depreciation rates represent management's current best estimate of the useful lives of the assets. Certain properties are accounted for as own use assets and are thus held at cost less depreciation. Market indicators reflect that these properties could realise more than their carrying values if disposed of, in which case depreciation is halted.

Goodwill and indefinite life intangible assets

The Group has assessed the carrying value of goodwill and indefinite life intangible assets to determine whether any of the amounts have been impaired. The carrying values were assessed using price/earnings methods and the actual results and forecasts for future years (refer note 16 for further disclosure).

Investments

The Group reflects its investments at amortised cost, fair value through profit or loss and fair value through other comprehensive income. The directors' value of unlisted investments was determined using a combination of discounted cash flow, net asset value and price/earnings methods. MIAL, an unlisted investment held for trading, is recorded at fair value less cost to sell and is based on a signed sale agreement, which is subject to private shareholders not exercising their pre-emptive rights, and written approvals from the Airports Authority of India, the Indian Government and lenders. MIAL is classified as fair value through profit or loss and has been disclosed as a current asset as it is expected to be sold within the next twelve months. Certain investments are of a long term nature and uncertainty surrounds their valuation, which may result in a significant change in value over time (refer note 19).

Impairment allowances are raised against inventory when it is considered that the amount realisable from such inventory's sale is considered to be less than its carrying amount. The impairment allowances are made with reference to an inventory age analysis.

Trade receivables and banking advances

The Group applies the simplified approach to determine the expected credit losses (ECLs) for trade receivables, contract assets and lease receivables (collectively, accounts receivable). ECLs for accounts receivable are calculated using a provision matrix. For banking advances, the measurement of ECLs is performed using a three stage model, based on changes in credit quality since initial recognition.

3. Critical accounting judgements in applying the Group's accounting policies

Judgements made in the application of IFRS 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 below:

Deferred taxation

Deferred taxation assets are recognised to the extent it is probable that the taxable income will be available against which they can be utilised. Future taxable profits are estimated based on business plans which include estimates and assumptions regarding economic growth, interest, inflation and taxation rates and competitive forces.

Control assessment

In determining whether a substantial holding in an entity should be treated as an associate or subsidiary, management reviews the size of its holding, the voting rights it holds, the spread of shareholders and whether it has any arrangement to act in concert with any other investors.

The Group's purchase of 10.6 million additional Adcock Ingram shares during the year resulted in the Group holding an effective 44.8% (2018: 38.5%) of the net ordinary shares in issue (total ordinary shares in issue less treasury shares). The Group's economic interest in Adcock Ingram is 51.4% (2018: 45.2%) as a consequence of treating the 2015 sale of 15% of its holding, in terms of the Adcock Ingram Broad-Based Black Empowerment Scheme (Scheme), to Ad-izinyosi as a deferred sale. For the year ending 30 June 2019 the Group equity accounted, rather than consolidated, its 51.4% economic interest in Adcock Ingram as Management concluded that the requirements for de facto control detailed in IFRS 3 Business Combinations had not been met. In its assessment of control, Management analysed shareholder attendance at previous AGMs, reviewed the relative size of the Group's holding compared to other individual shareholdings and evaluated the dispersion of other shareholders.

Provisions

Refer to note 35 for further disclosure.

41. Accounting estimates and judgements (continued)

3. Critical accounting judgements in applying the Group's accounting policies (continued)

Post-retirement obligations

The Group provides retirement benefits for its permanent employees through pension funds with defined benefit and defined contribution categories. Actuarial valuations are based on assumptions which include the discount rate, inflation rate, salary increase rate, expected return on plan assets and the pension increase allowance rate.

Puttable non-controlling interest liabilities

The Group has entered into put arrangements where non-controlling interests are entitled to sell certain of their holdings in subsidiaries to the Group at future contracted dates. The puttable non-controlling interest liability is calculated as the present value of the expected redemption value, discounted from the expected redemption date to the reporting date. There are two main assumptions used in the calculation of the liability; the expected redemption value at the expected redemption date and the discount rate used to discount the expected redemption value to the reporting date.

The discount rate is derived from an applicable government bond yield curve, in the country in which the subsidiary operates, and is applied over the number of years between the reporting date and the redemption date, plus an appropriate credit spread.

42. Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair values, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market values of other assets are based on the quoted market prices for similar items.

Intangible assets

The fair value of intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

Inventory

The fair value of inventory acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the efforts required to complete and sell the inventory.

Investments

Fair value of listed investments is calculated by reference to stock exchange quoted selling prices at the close of business on the report date. Fair value of unlisted investments is determined by using appropriate valuation models. (refer note 19)

Forward exchange contracts

The fair value of forward exchange contracts is based on their market prices.

Borrowings

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements. The carrying value of the bank overdrafts is the fair value.

Share-based payments

The fair value of the share options is measured using a modified Black-Scholes method. Measurement inputs include share price at measurement date, exercise price of the instrument, expected volatility (based on the historic volatility), option life, distribution yield and the risk-free interest rate (based on the ZAR bond static yield curve).

43. Subsequent events

Effective 1 August 2019 following the dissolution of the Adcock Ingram Broad-Based Black Empowerment Scheme, the Group attained a 50.14% voting rights controlling interest in Adcock Ingram. This investment will be consolidated from 1 August 2019.

The acquisition of Eqstra for R3.1 billion enterprise value, was announced on 15 July 2019 and is subject to normal approvals and conditions precedent.